UNIFORM SYSTEM
OF
FINANCIAL RECORDS
FOR
ARIZONA
SCHOOL DISTRICTS

DEPARTMENT OF EDUCATION

AUDITOR GENERAL

UNIFORM SYSTEM OF FINANCIAL RECORDS
FOR ARIZONA SCHOOL DISTRICTS
TABLE OF CONTENTS

Introduction
Governing Board and Management Procedures
Conflict of Interest
Calendar of Events
Chart of Accounts
Budgeting
Fund Accounting
Accounting Procedures
- Introduction
- Accounting Records
- Revenues
- Bank Accounts
- Expenditures
- Credit Cards
- Procurement
- Payroll
- Supplies Inventory
- Property Control
- Travel
- Student Activities
- Food Service
- State and Federal Financial Assistance

Financial Reporting
Audit Requirements
Information Technology
Appendices
- Summary of Information Sources
- Glossary
- Cooperative Agreements and Regional Services
- Student Attendance Reporting
- Records Management

INTRODUCTION

The *Uniform System of Financial Records* (USFR) has been developed by the Arizona Auditor General (Auditor General) and the Arizona Department of Education (ADE) pursuant to Arizona Revised Statutes (A.R.S.) §15-271. The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements. These policies and procedures are in conformity with generally accepted practices and federal and State laws.

Throughout the USFR, the term "must" or "shall" is generally used to describe statutory requirements districts are compelled to comply with by State or federal law or regulation; while the term "should" is generally used to describe the administrative policies and procedures that districts are required to follow to comply with the USFR. However, districts may use alternative policies and procedures if they provide the same level of internal control over accounting, financial reporting, and compliance with State and federal laws.

The requirements of the USFR are based on the Arizona Constitution; Arizona Revised Statutes; Arizona Attorney General Opinions; the Governmental Accounting Standards Board's *Codification of Governmental Accounting and Financial Reporting Standards*; *Financial Accounting for Local and State School Systems 2014,* issued by the United States Department of Education, National Center for Education Statistics; relevant sections of the *Code of Federal Regulations;* and other federal requirements.

Sections within the USFR are revised periodically for changes in laws, regulations, and accounting pronouncements that cover school district accounting, financial reporting, and compliance with State and federal laws. However, when districts need to be informed quickly of revisions, clarifications, or additional requirements such as those concerning budgeting or annual financial reporting, the Auditor General and ADE jointly issue USFR Memorandums and Forms to district administrators and county school superintendents, as needed. Additionally, the Auditor General periodically issues School District FAQs on a variety of topics related to USFR sections with additional information and resources. As such, **USFR Memorandums, FAQs, and Forms** should be considered amendments or addenda to the USFR and therefore should be considered as incorporated therein.

Arizona school district accounting, financial reporting, and compliance with State and federal laws is affected by the State Legislature, the State Board of Education, the Arizona Department of Education, school district governing boards, county school superintendents, the Auditor General, county treasurers, the federal government, and the Governmental Accounting Standards Board, both directly and often indirectly due to complex interrelationships.

A brief description of the duties and responsibilities of these organizations that are pertinent to the USFR follows:

The State Legislature mandates the USFR. In addition, the Legislature prescribes the legal means by which State monies are distributed to districts and establishes budgetary and other financial and accounting legal requirements.

INTRODUCTION

The Arizona State Board of Education is the governing and policy-making body of the Arizona Department of Education. The Board is responsible for generally supervising and regulating the conduct of the public school system. Its major duties and responsibilities pertaining to district accounting and finance include the following:

- Withhold State funds from districts that are determined after a hearing to be in noncompliance with the USFR.
- Delegate to the Superintendent of Public Instruction the execution of Board policies.
- Recommend to the State Legislature changes to statutes pertaining to school districts.
- Adopt rules prescribing procurement practices.

The Arizona Department of Education is administered by the Superintendent of Public Instruction. The Department's major duties and responsibilities pertaining to district accounting and finance include the following:

- Prescribe, in conjunction with the Auditor General's Office, a uniform system of financial records.
- Superintend Arizona public schools.
- Execute policies adopted by the State Board of Education.
- Apportion State equalization assistance to districts.
- Report school district statistical and financial information to the Governor and State Legislature each year.
- Prescribe, in conjunction with the Auditor General, the format of school district budget and annual financial report forms.
- Request the Auditor General to investigate when necessary the accounting of school monies by any State, county, or district officer.

School District Governing Boards are the primary governing body of the Arizona public school system. Major district accounting and finance related duties and responsibilities of these boards include the following.

- Maintain established schools as prescribed by law.
- Adopt the annual budget.
- Purchase, construct, manage, insure, rent, and sell school buildings, furniture, equipment, supplies, and other assets.
- Employ personnel and establish their salaries.
- Accept revenues and authorize expenditures.
- Implement the policies and procedures prescribed by the USFR, including controls that comply with the requirements of the USFR.

In addition to the above, governing boards of school districts authorized to assume "accounting responsibility" under A.R.S. §15-914.01 operate with full independence from the county school superintendent with respect to revenues and expenditures, including allocating revenues,

monitoring vouchers, authorizing and issuing warrants, and maintaining and verifying staff records for certification and payroll purposes.

County School Superintendents are elected officials required and permitted by statute to perform a variety of tasks for school districts. Their major duties and responsibilities pertaining to district accounting and finance include the following.

- Distribute all laws, reports, circulars, instructions, and forms, including Attorney General Opinions, received for district use.
- Recompute equalization assistance and certify in writing to the board of supervisors this amount and the amount needed for each district from the primary property tax.
- Reconcile the records of district cash balances to balances maintained by the county treasurer.
- Apportion certain revenues to the appropriate district funds.
- Maintain or have access to accounting records that provide for a determination to be made of whether adequate budget capacities exist for levy funds and adequate cash balances exist for cash-controlled funds for each district prior to processing warrants.
- Issue warrants based on district governing board vouchers and maintain a warrant register thereof.
- Approve district Maintenance and Operation and Food Service Funds revolving accounts.
- Encumber amounts for district liabilities payable at June 30.
- Report to the Superintendent of Public Instruction the amount of money received from State school funds, district taxes, and other sources; total expenditures for district purposes; and the cash balance of each district at the close of the school year.
- Provide special education and related services for handicapped students, if those services are not being provided by the governing board of each district.
- Establish service programs, including special small district service programs, for the benefit of districts.
- Administer accommodation schools.
- Maintain, transmit, or distribute various reports prepared by or for districts.

The Auditor General is required by Arizona Revised Statutes to perform numerous duties pertaining to districts. Such major duties and responsibilities include the following.

- Prescribe, in conjunction with ADE, a uniform system of financial records.
- Determine whether districts have maintained an acceptable degree of compliance with the requirements of the USFR and inform any school district failing to comply with such requirements of its noncompliance, detail in writing the school district's deficiencies, and provide them 90 days to correct cited deficiencies.
- Report to the Arizona Department of Education and the Arizona State Board of Education any school district that fails to establish and maintain the USFR or fails to correct its deficiencies within 90 days after they receive notice from the Auditor General.

- Provide consulting assistance to districts to help them correct deficiencies cited in the 90-day letter from the Auditor General.
- Report to the Joint Legislative Audit Committee and to the Attorney General the refusal or neglect of any district officer to conform to rules and regulations of his or her Office.
- Prescribe, in conjunction with the Arizona Department of Education, the format of district budget and annual financial report forms.
- Approve procurement rules proposed by the Arizona State Board of Education.
- Investigate, as requested by the Superintendent of Public Instruction, the accounting of school monies by any State, county, or district officer.
- Approve audit contracts of districts required to comply with Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles and Audit Requirements for Federal Awards (Uniform Guidance); review the completed audits to determine whether the prescribed auditing standards and other requirements of the Uniform Guidance have been met; and perform procedural reviews of districts not required to comply with the Uniform Guidance.

County Treasurers are elected officials who perform treasurer duties for various governmental entities, including school districts. These duties include receiving, recording, safeguarding, investing, and disbursing cash of such entities.

The Federal Government provides funding for various programs in the form of grants received directly by the district, grants passed through ADE, and reimbursements.

The Governmental Accounting Standards Board (GASB) is the highest source of authoritative accounting and financial reporting guidance for State and local governments, including school districts. GASB pronouncements are accepted by the American Institute of Certified Public Accountants in its *Code of Professional Conduct* as authoritative support for generally accepted accounting principles for the preparation of financial statements of State and local governments.

Districts must maintain an acceptable degree of compliance with the requirements of the USFR. The Auditor General determines a district's degree of compliance by reviewing its financial audit reports, USFR Compliance Questionnaire, and management letters submitted by the district's audit firm, and any USFR-related findings in an Auditor General performance audit report. See the **Audit Requirements section** for more information on USFR noncompliance and the 90-Day process.

Districts having questions concerning the requirements of the USFR should contact the Auditor General's Accountability Services Division or ADE School Finance.

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES AND PROCEDURES	1
DISTRICT FINANCES	2
GOVERNING BOARD AND EMPLOYEE TRAVEL	7
OPEN MEETING LAW	7
CONFLICT OF INTEREST	9
ARIZONA'S GIFT CLAUSE	9

INTRODUCTION

A school district governing board is the elected governing body of an Arizona school district that oversees all district actions and operations, including budget adoption, expenditure and payroll approval, employment and salary designations, financial reporting, and the adoption of policies that ensure effective district financial operations and compliance with the *Uniform System of Financial Records for Arizona School Districts* (USFR) and applicable federal and State laws.

The governing board also authorizes student activities and district-related travel and must conduct district business in public meetings that comply with open meeting law requirements. Finally, governing board members must ensure compliance with Arizona's gift clause and maintain objectivity in all decision making, meaning they must never involve themselves in making decisions over any transaction in which they have a financial or ownership interest. This section provides information on the governing board's roles and responsibilities in:

- USFR-related policies and procedures.
- District finances including student activities.
- Governing board and employee travel.
- Open meeting law.
- Conflict of interest.

POLICIES AND PROCEDURES

Arizona Revised Statutes (A.R.S.) §15-341 describes that school district governing boards must prescribe and enforce policies and procedures that are not inconsistent with laws and rules prescribed by the Arizona State Board of Education (State Board). Policies are a district's official rules and guidelines that governing boards adopt at a public meeting, generally with the assistance of district legal counsel to ensure district policies comply with various State and federal laws. Procedures are the specific steps and processes that district administration and staff must follow to uphold the governing board adopted policies. A governing board may delegate in writing to a superintendent, principal, or head teacher the authority to prescribe procedures that are consistent with the governing board's policies as authorized by A.R.S. §15-341(F).

While school district governing boards are responsible for adopting policies regarding a wide variety of district operations, the USFR identifies specific policies governing boards must establish related to its financial operations. Throughout the USFR, each section identifies the minimum policies and procedures required to establish effective internal controls over the applicable area. Below are some of the key areas in which governing board members have oversight responsibilities. However, governing board members should review the specific policy and procedure requirements identified within each section of the USFR to understand their role in overseeing and upholding the USFR requirements and to ensure their district's policies meet the minimum requirements described.

Delegation

In accordance with A.R.S. §15-341(F), a governing board may delegate in writing to a superintendent, principal, or head teacher the authority to prescribe procedures that are consistent with the governing board's policies. There are also other provisions in A.R.S. allowing a governing board to delegate certain specific responsibilities. However, Arizona Attorney General (AG) Opinion I87-119 established that a governing body (e.g., governing board) may not delegate discretionary functions assigned to it by statute unless such delegation is authorized by legislation. Therefore, governing boards may only delegate purely ministerial, nondiscretionary functions without legislative authorization. A ministerial or nondiscretionary function is one in which no discretion or personal judgment is required. For example, a ministerial function is one where the governing board adopts policy with sufficient details so that the individual executing the policy wouldn't need to use personal discretion to implement it.

DISTRICT FINANCES

The governing board plays a critical role in ensuring the district's financial operations are conducted in compliance with statute and the USFR, which sets forth accounting and reporting standards for Arizona school districts. Board members fulfill key responsibilities that promote fiscal integrity, transparency, and statutory and USFR compliance, as described below.

Budgeting

The governing board is responsible for preparing, proposing, and adopting annual expenditure budgets for all district funds. The governing board should oversee the entire budgeting process. Generally, management, including governing boards, superintendents, chief business officers, and other district and school administrators, develop district budgets. Budgeting considerations should include the district's fiscal goals and policies related to fund balance reserves, capital spending and debt, and employee compensation. Budget considerations should also include current condition assessments, such as analysis of various funding sources, inflation, governmental regulations, competition for students, and demographic and financial trends, including those monitored by the **Auditor General's school district financial risk analysis**. The governing board should also monitor budget and financial performance throughout the year by reviewing monthly budget and spending reports, including budget reports provided by the Arizona Department of Education (ADE). Governing boards may be required to prepare, propose, and adopt expenditure budget revisions during the school year to comply with statutorily prescribed budget limits that will change throughout the year based on the district's average daily membership. The governing board must provide notice of the public hearing and board meeting to adopt and revise the budget. See the **School District Annual Budget Packet Submission and Publication Instructions** for the notice methods allowed by statute and the specific timeframes in which notice must be provided for budget adoption and revisions. See the **Budgeting section** for budgeting requirements. A.R.S. §§15-903 and 15-905

GOVERNING BOARD AND MANAGEMENT PROCEDURES

Bank accounts

The governing board is responsible for authorizing the opening and closing of any school district bank accounts. The governing board may authorize only the bank accounts prescribed by A.R.S. and the USFR and should ensure that all inactive bank accounts are closed promptly. Further, the governing board should designate authorized check signers for each bank account and keep a list of all authorized signers and promptly remove inactive or terminated check signers from the authorized signer's list. See the **Bank Accounts section** for allowable bank accounts and the policies and procedures for bank accounts.

Payroll

The governing board is responsible for adopting payroll policies that include:

- Governing board approved salary and wage schedules.
- Governing board approval for all employee contracts, pay agreements, and any other agreed-upon term of employment, including compensation for additional duties.
- Employee benefit guidelines including the types of benefits offered and eligibility requirements.
- Establishing a delayed payroll system.
- Policies for prorating employee compensation when requested by the employee, as allowed by A.R.S. §23-351.
- Fingerprinting all employees as described in A.R.S. §15-512.
- Conducting background investigations on prospective employees, including the use of standard documentation forms developed by the district, as required by A.R.S. §15-512(F).
- Ensuring all employees and governing board members comply with the State's conflict-of-interest laws.

In addition to adopting the District's payroll policies and approving all employee contracts and pay agreements, the governing board must authorize the issuance of payroll by signing each payroll voucher before they are sent to the county school superintendent (CSS) for warrant processing. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 prepare their own warrants and do not process payroll vouchers through the CSS.

Finally, the governing board has specific oversight responsibilities over the district's superintendent as the highest-ranking employee within any school district. Specifically, as required by A.R.S. §15-341(A)(39), the governing board must ensure that its superintendent's contract is structured in a manner in which up to 20 percent of the superintendent's total annual salary is classified as performance pay. Unless the governing board votes to implement an alternative procedure, the performance pay must be determined as described in A.R.S. §15-341(A)(39)(a) through (d). While the statute establishes the 4 components of a superintendent's performance pay, each school district governing board must establish procedures and guidelines to monitor and assess the superintendent's progress in meeting the performance plan's established goals. The governing board must document its evaluation of the superintendent's performance prior to making any

performance-related payments. It's important to note that the superintendent performance pay statute does not require school districts to increase total superintendent compensation for the performance pay requirement. Rather, it is a mechanism to ensure the district's superintendent is meeting certain priorities of the governing board such as student academic performance, parent satisfaction, teacher satisfaction, and other criteria established by the governing board.

Expenditures

The governing board also plays a critical role in a district's expenditure process. In accordance with A.R.S. §15-321(G), governing board members must review and sign all expenditure vouchers before they are sent to the CSS for warrant processing. Governing board members are allowed to sign expenditures between board meetings provided that, prior to the signing, the board has passed a resolution to use that procedure. When board members approve expenditures between meetings, at least a quorum of the board must sign the voucher before sending it to the CSS and ratify the expenditures in its next regular or special meeting. Ratification is not the first approval, but the formal action taken to document the board approval obtained between meetings. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 prepare their own warrants and do not process expenditure vouchers through the CSS.

The governing board should not authorize expenditures from budget-controlled funds in excess of the amount budgeted for each fund and should not authorize expenditures in cash-controlled funds unless sufficient cash is available in the fund. See the **Expenditures section** for information on which funds are budget controlled and cash controlled, certain exceptions that may apply to this requirement for cash-controlled funds depending on the minimum number of accounts the county treasurer maintains for the district, and procedures districts should establish to ensure vouchers are not sent to the governing board for approval unless sufficient budget capacity or cash, as applicable, is available to support the expenditure. The CSS also plays an oversight role in this process, pursuant to A.R.S. §15-304, and should not issue warrants for a district unless sufficient budget capacity or cash is available in an applicable fund.

If the district intends to use credit cards or purchasing cards (p-card), the governing board is responsible for adopting credit card policies governing authorized card use by district employees and should ensure district management establishes written procedures. The established policies and procedures should provide effective controls over credit card and p-card purchases to help reduce the risk of misuse and unapproved or fraudulent transactions. See the **Credit Cards section** for policies and procedures specific to credit cards and p-cards.

Procurement

The governing board is responsible for establishing procurement policies to comply with statutory requirements and the School District Procurement Rules (Rules) adopted by the Arizona State Board of Education, and to ensure the District obtains the best value for the public monies it spends. There are several provisions within the Rules that require governing board determinations such as sole-source and emergency procurements and multi-term contracts. The governing board may adopt a policy to delegate certain procurement authority in accordance with the Rules. Additionally, the governing board must obtain voter approval to construct buildings and purchase or

lease school sites, unless otherwise exempted by A.R.S. §15-342(25). See the **Procurement section** for more specific procurement policies and procedures information.

Financial reporting

The governing board is responsible for publishing an annual financial report (AFR) including the school-level AFR each year in a format prescribed by the Arizona Auditor General in conjunction with the ADE. District governing boards must review and certify the completed AFR by signing the cover page prior to submitting the forms to the ADE. Additionally, most districts are required by A.R.S. §15-914 to prepare financial statements, in accordance with U.S. Generally Accepted Accounting Principles (GAAP), for audit by an independent accounting firm. See the **Financial Reporting section** for financial reporting requirements.

Audit requirements

A.R.S. §15-914 requires most school districts to have an annual or biennial financial statement audit and requires districts subject to the requirements of the 2 Code of Federal Regulations, Part 200, Subpart F (Uniform Guidance), to have an annual single audit of its financial statements and compliance with federal grant reporting requirements. Statute requires these audits to be performed by an independent certified public accountant (CPA) and requires districts' auditors to complete the USFR Compliance Questionnaire (Questionnaire) as part of any statutorily required financial audit. See the **Audit Requirements section** for audit threshold information that describes the spending and budget thresholds requiring each type of audit described above and the various components of an audit report that governing board members should understand.

Prior to the audit beginning, the governing board must approve the independent CPA or CPA firm the District has chosen to conduct the audit and approve the proposed audit contract terms. A.R.S. §§15-914(E) and 41-1279.21(A)(4) require the Auditor General to approve school district financial and compliance audit contracts. After the governing board approves the selected audit firm, the district or its selected audit firm must submit the proposed audit contract to the Auditor General for approval. The audit contract becomes effective after Auditor General approval and both the school district and audit firm have signed the agreement, as approved by the Auditor General. Audit work must not begin before the contract is effective. Any changes to the audit contract as it was originally approved by the Auditor General must be made through a written contract amendment and submitted to the Auditor General for approval.

At the audit's conclusion, A.R.S. §15-914(H) requires the governing board to publicly accept the audit report(s) and the Questionnaire by roll call vote. District management should provide board members with access to the audit reports and Questionnaire as part of presenting the district's audit for board acceptance. The Questionnaire and single audit often include deficiencies and/or findings in the district's internal controls required by the USFR or compliance with federal grant requirements, cited by the auditor. District management should develop an action plan to correct any deficiencies cited and are required to submit a written action plan for federal internal control and compliance findings included in the single audit. Governing boards should be aware of and understand the deficiencies and findings cited in their audit reports and Questionnaire and monitor district management's progress in implementing corrective actions.

The governing board may receive notice that its district is in noncompliance with the USFR if the Auditor General determines the district has not established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. If that occurs, the Auditor General will provide the governing board and district management with a list of the district's most significant deficiencies cited in its audit reports and Questionnaire and a corrective action plan template. A.R.S. §15-271 requires districts to correct the deficiencies within 90 days of the Auditor General's notification. See the **Audit Requirements section** for more information on steps district management should take to develop a corrective action plan, the Auditor General's oversight role and the 90-day noncompliance process, including penalties that the State Board may impose if a district does not substantially correct its deficiencies within 90 days.

Student activities

Student activities are student clubs, organizations, school plays, or other student entertainment, as defined by A.R.S. §15-1121. Student activities monies are raised by the efforts of students with the approval of the governing board. The governing board has several responsibilities in overseeing district student activities.

Fundraising—The governing board must approve all fundraising events conducted by student clubs or organizations in advance. The governing board may choose to approve fundraising events in 1 of 2 ways:

1. The board may approve each individual fundraiser that each student club or organization would like to participate in throughout the year in an open meeting and document the approval in the meeting minutes.
2. The board may adopt a policy that identifies specific fundraisers student clubs may participate in and delegate in writing that the superintendent, principal, or head teacher may prescribe procedures to carry out the policy. The list of approved fundraisers in the district's policy must be detailed enough to eliminate any discretion by the superintendent, principal, or head teacher in carrying out the policy. See delegation authorities of the governing board described on page 2 above. The board may still approve individual fundraisers not included in the district's adopted policy, as described in option 1.

Student Activities Fund and treasurer—To ensure the proper administration and oversight of student activities monies in accordance with A.R.S. §15-1122, the governing board is responsible for formally establishing a Student Activities Fund and appointing a student activities treasurer to be responsible for the Fund. In districts with multiple schools, the governing board may appoint an assistant student activities treasurer for each school.

Student Activities Fund investment—The governing board may invest and reinvest student activities monies. Governing boards may want to consider relatively risk-free investments for student activities monies since the monies are earned by and for student groups. All monies earned by investment must be credited to the Student Activities Fund. See the **Student Activities section** for more information on allocating interest on Student Activities Fund investments.

Monthly reports—The student activities treasurer or an assistant student activities treasurer must prepare a monthly report of all revenues and expenditures of the Student Activities Fund to be presented to the governing board at least monthly, in accordance with A.R.S. §15-1123. The governing board should prescribe a format for student activities reports that include detailed accounts showing cash receipts, disbursements, transfers, and cash balances for each approved club or organization. See the **Student Activities section** for a sample report of cash receipts, disbursements, transfers, and cash balances.

GOVERNING BOARD AND EMPLOYEE TRAVEL

The governing board may allow a superintendent, principal, or representatives of the superintendent or principal to travel for a school purpose, as determined by a governing board majority vote. Districts may also permit governing board members and members-elect to travel for school purposes and receive reimbursement. Statute requires the governing board to prescribe procedures and amounts for reimbursing travel expenses.

The governing board should adopt a written travel policy that prescribes procedures for approving travel in advance, maximum reimbursement limits, and required supporting documentation. All travel expenses, including reimbursements, must not exceed the maximum amounts established by the Arizona Department of Administration (ADOA) in accordance with A.R.S. §38-621 et seq.

ADOA's travel policy is part of the State of Arizona Accounting Manual (SAAM). SAAM Topic 50-Travel provides detailed guidance and rate tables for the required mileage reimbursement per mile and the maximum lodging and meal reimbursements. See the **Travel section** for key provisions from ADOA's policies that district should implement to provide adequate internal control over travel expenditures.

OPEN MEETING LAW

The school district governing board is responsible for ensuring compliance with Arizona's Open Meeting Law (OML) under A.R.S. §38-431 et seq. These statutes collectively require that the decision-making processes of public bodies are conducted with appropriate notice, are open to the public, and are adequately documented.

Notice

The governing board must conspicuously post a statement on the district's website stating where all public notices of their meetings will be posted, including the physical and/or electronic locations, and must give additional public notice as is reasonable and practicable. The governing board must post all public meeting notices on their website and must include an agenda of the matters to be discussed, considered, or decided at the meeting or information on how the public may obtain a copy of such an agenda. The agenda must be available at least 24 hours before the meeting, except in the case of an actual emergency, in which case the District must follow the requirements prescribed in A.R.S. §38-431.02(D). A.R.S. §38-431.02

Open to the public

Legal action, including decisions, motions, and votes, may only occur during a public meeting. The governing board must ensure that sufficient seating is provided to accommodate the reasonably anticipated attendance of all individuals desiring to attend the deliberations and proceedings, when feasible.

Meeting minutes and recordings—All meetings must be either recorded or documented with written minutes, including executive sessions. For meetings other than executive sessions, the minutes or recording must include:

1. The date, time, and place of the meeting.
2. The members of the governing board recorded as either present or absent.
3. A general description of the matters considered.
4. An accurate description of all legal actions proposed, discussed, or taken, including a record of how each member voted and the names of the members who propose each motion.
5. The names of the persons, as given, who make statements or present material to the public body and a reference to the legal action about which they made statements or presented material.

Executive session meeting minutes must include the information described in 1 through 3 above; an accurate description of all instructions given pursuant to section 38-431.03(A)(4), (5), and (7); and other matters as may be deemed appropriate by the governing board.

Recordings or minutes must be available for public inspection within 3 working days following the meeting. A.R.S. §38-431.01

Executive session

The governing board may enter executive session only upon a public majority vote of the members constituting a quorum and only for purposes authorized by A.R.S. §38-431.03(A). The minutes and discussions made at executive sessions should be kept confidential, except as provided by A.R.S. §38-431.03(B). Legal action involving a vote or decision must not be taken at an executive session, except that the governing board may instruct its attorneys or representatives as provided by §38-431.03(A)(4), (5), and (7). A public vote must be taken before any legal action binds the governing board.

Violations of open meeting law

Governing board members who knowingly violate or who knowingly aid, agree to aid or attempt to aid in violating open meeting laws may be subject to civil penalties imposed or removal from public office by a superior court as provided by §38-431.07. Further, any legal action taken by the governing board during a meeting held in violation of the open meeting law requirements prescribed in A.R.S. §38-431 et seq. is null and void, unless the governing board ratifies the action in accordance with requirements, as described in A.R.S. §38-431.05(B).

CONFLICT OF INTEREST

School district governing board members and employees are required to comply with State conflict-of-interest (COI) requirements documented in A.R.S. §38-501 et seq. A COI occurs when a public officer or employee uses their official position to secure any valuable benefit for themselves or their family members who would not ordinarily accrue to them. In addition to complying with the laws, governing boards are responsible for adopting COI policies and procedures that help to ensure all governing board members and employees understand and comply with their statutory responsibilities to disclose COIs and refrain from participating in any manner in such COIs. See the **Conflict of Interest section** for detailed information on the statutory requirements, policies and procedures to ensure appropriate disclosure, memorialization, and remediation of COIs, and penalties for violations.

ARIZONA'S GIFT CLAUSE

Arizona Constitution, Article IX, §7, commonly referred to as "Arizona's gift clause," requires that a governmental entity only use public monies for a public purpose and that the value to be received by the public is not to be far exceeded by the consideration being paid by the public. School district governing boards should be aware of and consider the gift clause when approving all school district expenditures but should specifically consider its compliance with the gift clause for certain infrequent and unusual purchases such as food and beverage purchases and additional duties and fringe benefits compensation.

Food and beverage purchases

A.R.S. §15-342(39) authorizes school district governing boards to provide food and beverages at district events, including trainings and other official school functions, subject to certain restrictions, including the Arizona gift clause and laws pertaining to travel and subsistence. If a governing board chooses to use public monies to pay for food and beverage expenditures, each governing board is responsible for directly approving such expenditures in advance and may choose to approve them in 1 of 2 ways:

1. The board may approve each individual food or beverage purchase, documenting the total amount to be spent or a per person cost and which district fund will be used to make the purchase. The district should also document how the purchase benefits the district and its public purpose, and document the district's determination that the expenditure is in accordance with State laws, the Arizona Constitution's gift clause, and the funding source(s) allowable uses.
2. The board may adopt a policy or resolution that identifies specific events or activities where food and beverages may be provided. The policy or resolution should set expenditure limits such as per-person costs, specify which district funds may be used to make such purchases, and delegate in writing that the superintendent, principal, or head teacher may prescribe procedures to carry out the policy. The policy or resolution should also document how providing food and beverages at such events benefits the district and its public purpose and that the

district determined the expenditure is in accordance with State laws, the Arizona Constitution's gift clause, and the identified funds' allowable uses.

The district's policy must be detailed enough to eliminate any discretion by the superintendent, principal, or head teacher in carrying out the policy. See delegation authorities of the governing board described on page 2 above. The board may still approve individual food and beverage purchases not included in the district's adopted policy, as described in option 1.

Additional compensation and fringe benefits

As described in the **Payroll section**, the governing board is responsible for approving all employee contracts, pay agreements, and any other agreed-upon terms of employment, including compensation for additional duties. The governing board should also establish employee benefit guidelines, including types of benefits offered and eligibility requirements. Many contracts and pay agreements include standard language, and some benefits such as health insurance are standard across all employees. However, governing boards may need to provide additional consideration to the gift clause when approving additional compensation and fringe benefits.

A.R.S. §38-601 prohibits State employees, including school district employees, from receiving any payments in excess of their salary provided by law for performing their regular duties. Arizona Attorney General Opinion I78-188 further clarifies that school districts are prohibited from paying bonuses unless the bonus is part of a contractual compensation package between an employee and a district and is paid in exchange for services rendered during the contract period.

Food and beverage purchases, additional compensation, and fringe benefits are at higher risk of being considered a gift of public monies if the public purpose and value being provided to the public are not evident. However, there may be other district expenditures the board needs to consider for gift considerations as well. Districts should ensure that all employees involved in the procurement and expenditure process are aware of the Arizona gift clause when authorizing expenditures. When in question, the governing board should consult the district's legal counsel when determining compliance with Arizona's gift clause and document its determination and the rationale supporting its determination.

CONTENTS

Topic	Page
INTRODUCTION	1
DEFINITIONS	1
POLICIES	4
PROCEDURES	4
Training	5
Disclosure	5
Memorialization	6
Remediation	7
PENALTIES	9
Sample Forms	
CONFLICT-OF-INTEREST DISCLOSURE FORM	10

INTRODUCTION

A conflict of interest (COI) occurs when a public officer or employee uses their official position to secure any valuable benefit for themselves or family members that would not ordinarily accrue to them. COIs, whether perceived or actual, can erode public trust and damage an entity's reputation. Arizona's COI laws are documented in A.R.S. §§38-501 et seq. and apply to all school district public officers (i.e., governing board members) and employees. These statutes define substantial and remote interests, detail public officers' and employees' disclosure requirements, and set out requirements for recusal from participating in any manner in transactions for which they have a COI. A COI exists when a governing board member or employee or their relative has a substantial interest in any contract, sale, purchase, service, or decision of the district.

School district internal controls over COIs should foster transparency and be adequate to:

- Allow governing board members and employees to make known and fully disclose any COIs in any district contract, sale, purchase, service, or decision.
- Allow district management to appropriately review and remediate the conflict's potential impact on district contracts, sales, purchases, services, or decisions, as required by statute when COIs are disclosed.
- Prevent governing board members and employees from voting on or otherwise participating in any manner in any district contract, sale, purchase, or decision in which they have a COI.

A governing board member's or employee's failure to recuse themself from a contract, sale, purchase, or decision in which they have a COI could result in statutory violations, cancellation of district contracts, removal from office, or criminal penalties pursuant to A.R.S. §§38-506 and 38-510.

School districts should tailor internal controls to their specific needs. The recommended internal controls and procedures described in this section are provided as examples of sound administrative practices that districts can use in either electronic or manual systems to ensure that COI training, disclosures, memorialization, and remediation is appropriately documented and retained. Districts may use other controls if they provide at least the same level of internal control. In addition to this section, districts should follow the retention schedules provided in the **Records Management section** for personnel and expenditure records.

DEFINITIONS

Substantial Interest

Substantial interest is any nonspeculative pecuniary or proprietary interest, either direct or indirect, other than a remote interest. A.R.S. §38-502(11)

CONFLICT OF INTEREST

The following are examples of substantial interests that are required to be disclosed:

- In addition to your government employment, you work for a business and receive compensation such as a salary, bonus, or commission, and that business provides services to your school district employer.
- Your brother-in-law owns a business that provides goods or services to your school district employer.
- You have a relative, as defined by statute, who is employed by the same school district in which you are employed or are a governing board member.

Remote Interest

Remote interest is a limited interest that is defined by statute and that does not disqualify a governing board member or employee from participating in a contract, sale, purchase, or decision. For example, that of a school district governing board member when the relative involved is not a dependent as defined in A.R.S. §43-1001 or a spouse. Refer to A.R.S. §38-502(10) for a complete list of remote interests.

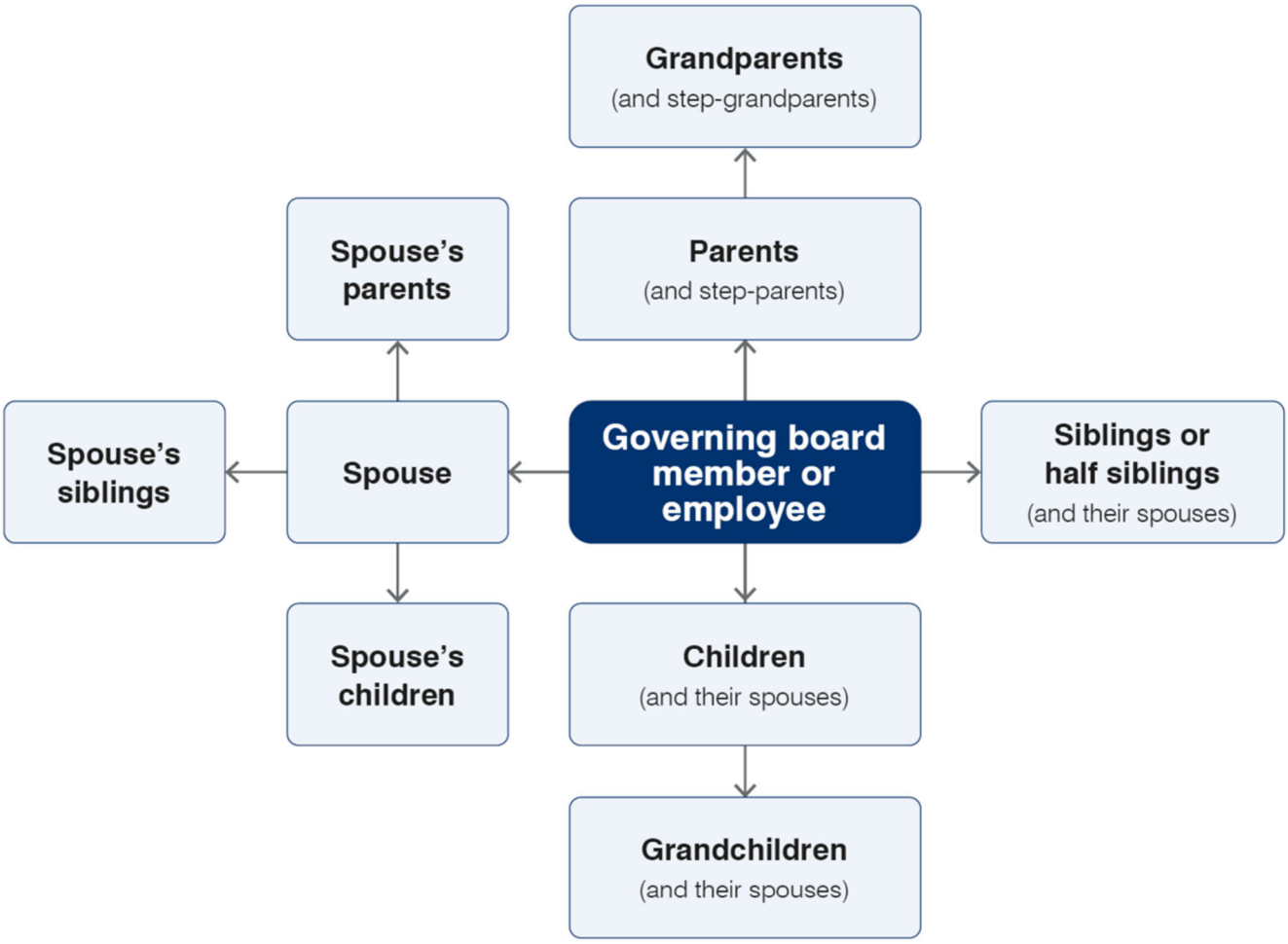
Employee

Employee means all persons who are not public officers and who are employed on a full-time, part-time, or contract basis by an incorporated city or town, a political subdivision (e.g., school districts), or the State or any of its departments, commissions, agencies, bodies, or boards for remuneration. A.R.S. §38-502(2)

Relative

Relative is the spouse, child, child's child, parent, grandparent, brother, or sister of the whole or half blood and their spouses and the parent, brother, sister, or child of a spouse. A.R.S. §38-502(9). See the diagram on page 3.

CONFLICT OF INTEREST



Make known

Make known means the electronic or manual filing of a paper that is signed by a public officer or employee and that fully discloses a substantial interest or the filing of a copy of the official minutes of a public agency that fully discloses a substantial interest. The filing must be in the special file established pursuant to A.R.S. §38-509. A.R.S. §38-502(3)

Refrain from participating

Refrain from participating means the public officer/employee must refrain from voting upon or otherwise participating in any manner as an officer or employee in any decision of a public agency or in any contract, sale, purchase, or decision for which they or their relative has a substantial interest. A.R.S. 38-503(B)

Participation may include actions such as approving, developing, introducing, administering, advising, providing information, influencing decisions, or requesting or directing others to approve the matter.

POLICIES

While statute establishes minimum standards of conduct related to COIs, school district governing boards should establish written COI policies to ensure all governing board members and employees understand and comply with their COI statutory responsibilities. Doing so helps ensure that all governing board members and employees act in the district's best interest when making decisions and are not improperly influenced in their official conduct by conflicts of interest. Well-developed and implemented COI policies will provide a framework for COI procedures, help mitigate the risk of nondisclosure, set clear standards for what should be disclosed, and ultimately help improve public trust and transparency in the district's operations. Each district's COI policies should, at a minimum, address the following to comply with statutory requirements and establish effective internal controls over conflict-of-interest disclosures:

1. Require employees and governing board members to annually disclose any substantial interest they or their relative has in any district contract, sale, purchase, service, or decision. The policies should also require governing board members and employees to promptly update their COI disclosures if their circumstances change during the year.

2. Develop a standard COI disclosure form (see sample **CONFLICT OF INTEREST DISCLOSURE FORM**) that includes adequate space for all COIs to be disclosed in sufficient detail for district administration to develop a remediation plan and a member of the public to understand the nature of the conflict; requires the governing board member or employee to affirm that no COIs exist, when applicable; and includes a required signature line for the governing board member or employee to attest to the accuracy and completeness of the information provided.

3. Require district management to maintain, for public inspection, a special file with all documents necessary to memorialize all governing board members' and employees' substantial interest disclosures pursuant to A.R.S. §38-509.

4. Require district management to establish and implement a review and remediation process to ensure governing board members and employees with disclosed substantial interests refrain from voting upon or otherwise participating in any manner in any district contract, sale, purchase, or decision for which they or their relative has a substantial interest.

5. Require annual training on the State's conflict-of-interest laws and the district's COI policies to ensure governing board members and employees understand their conflict-of-interest responsibilities.

PROCEDURES

School districts should establish procedures to fully implement, enforce, and monitor compliance with the governing board's adopted COI policies. The district's procedures should, at a minimum, describe the requirements for COI training, disclosure requirements, file maintenance, and remediation procedures.

Training

School districts should develop and provide trainings for all employees and governing board members to ensure awareness of COI laws and the district's related policies and procedures. At a minimum, the training should cover:

- Specific district COI policy requirements.
- What constitutes a substantial interest and a remote interest.
- The definition of a "relative" pursuant to A.R.S. §38-502(9).
- How to adequately complete the district's COI disclosure form, including affirming that no conflicts exist when applicable and attesting to the accuracy and completeness of the disclosed information.
- The applicability of COI statutes, including that they apply to all district governing board members and employees.
- The requirement to refrain from voting upon or otherwise participating in any manner in any contract, sale, purchase, or decision in which they or their relative has a substantial interest.
- The statutory and policy penalties for violating COI statutes.

School districts should provide COI training to all governing board members and employees at least annually and retain the training slides or documentation of the information provided. School districts should also maintain documentation of who received the training and the date(s) it was provided, such as signed attendance rosters.

Additionally, districts should develop training and guidelines for administrative staff involved in the review and remediation process, to ensure they understand the district policies and procedures related to the disclosure review, memorialization, and remediation described below.

Disclosure

A.R.S. §38-503 requires that governing board members and employees make known any substantial interest they have or their relative has in any district contract, sale, purchase, service, or decision. To help ensure compliance with this requirement, districts should require all employees and governing board members to complete a COI disclosure form upon hire or upon taking office and annually thereafter, and require them to promptly update their disclosure forms when their job responsibilities or their relative's circumstances change and it affects their previously completed COI disclosure.

Districts may establish electronic methods of collecting and tracking COI disclosure forms. Districts using electronic form submissions should enable features that ensure all required form fields are completed correctly. For example, identifying when the user must select only 1 answer or may select multiple answers, and prompting the user to complete additional required fields based on the answers provided. Further, electronic forms should have a method to authenticate the employee that completed the form such as a log-in system required for completion.

District policies should establish time frames in which COI disclosures must be completed for new employees and board members, and time frames in which COI updates must be completed after an employee's, or board member's circumstances change. At a minimum, districts should require initial COI disclosures to be completed within 5 days of starting employment or starting a new term as a board member and require updates to be completed with 15 days of a change in circumstances. Requiring frequent updates to the disclosure forms conveys to employees and governing board members the importance of complying with COI laws and can help prevent employees and governing board members from mistakenly not disclosing a substantial interest when required to do so.

The following change in circumstance examples may require a COI disclosure update:

- An employee is promoted to a new position with different supervisory, purchasing, or decision-making responsibilities.
- A governing board member or employee opens a new business and would like to be considered as a district vendor.
- A governing board member or employee's relative sells a business in which they had disclosed a substantial interest, thereby eliminating the conflict.

District management must review all completed forms to ensure they are completed correctly and any disclosed substantial interests are described in sufficient detail to allow the district to establish a remediation plan (see Remediation below) and a member of the public to understand the nature of the conflict. It may be necessary for district management to require the employee or governing board member to amend the disclosure if the employee or board member did not provide sufficient detail pertaining to their disclosed substantial interest. Districts should encourage employees and board members to err on the side of transparency when completing COI disclosures to ensure district management has all the information necessary to determine whether a substantial interest exists and what, if any, remediation is required. For example, if an employee or governing board member questions whether they have a substantial interest that must be disclosed, the employee or board member should disclose the potential COI so district management can adequately consider it and document their decisions on whether a substantial interest exists.

Memorialization

Districts must maintain all disclosed substantial interests in a special file available for public inspection pursuant to A.R.S. §38-509. In addition to being statutorily required and enhancing transparency, maintaining substantial interest disclosures in a special file makes it easier for district administration to review disclosures and determine whether substantial interests have been disclosed related to a particular matter whenever necessary. While statute requires employees and board members to disclose only substantial interests, districts can enhance public transparency by separately making all COI forms available for public inspection, in addition to the special file of substantial interest disclosures it is required to maintain. For example, if concerns are raised that an employee or governing board member involved in a procurement had a conflict of interest,

making their COI disclosure form available for public inspection would promote transparency and enhance public trust in the board member's official actions.

Remediation

When a substantial interest has been disclosed, districts should take steps to remediate or eliminate the potential that the interests could affect or influence an employee's or board member's official conduct. The extent of remediation necessary will vary based on the circumstances of the conflict. Remediation may entail restricting or modifying the conflicted individual's decision-making or supervisory responsibilities, removing the relevant individual from the decision-making or supervisory process entirely, or appointing another person to oversee all or some of the matters pertaining to the conflict. Governing board members with disclosed substantial interests must recuse themselves in a public meeting from any action or decision for which they or their relative has a substantial interest and make known the reason for the recusal; the district must document the recusal and reason in the meeting minutes. Management must review submitted COI forms to determine the appropriate actions to remediate all disclosed conflicts, document the remedial actions taken, and notify applicable district departments and personnel of the remediation plan for enforcement.

When in question, the governing board should consult the district's legal counsel when determining whether a COI exists and the appropriate remedial actions necessary to comply with the statutory COI requirements and document its determination and the rationale supporting its determination.

Generally, conflicts of interest will fall into 2 categories, personnel (internal) conflicts and vendor (external) conflicts. Specifically:

Personnel conflicts

Personnel conflicts occur when an employee or governing board member has a relative, as defined by A.R.S. §38-502(9), employed or considering employment at the district for which they are an employee or governing board member.[1] The governing board member or employee must refrain from voting upon or otherwise participating in any manner in any district contract or decision involving their relative. As such, the governing board member or employee should not be involved with the interview, hiring, contract approval, compensation, supervision, payroll approval, or any payroll related decisions or actions for their relatives.

The district should notify the conflicted individual(s) of their responsibilities for refraining and notify the human resources and payroll departments of any existing personnel conflicts so the individual with the conflict is not placed in a supervisory role, does not participate in the approval of pay for their relative, and is restricted from accessing electronic or paper records for the relative. School districts without a designated human resources or payroll department should reassign the specific supervisory or approval responsibilities as necessary to remediate the COI.

[1] For a governing board member this does not include a relative that is not a dependent, as defined in section A.R.S. §43-1001, based on the defined remote interests in A.R.S. §38-502(10).

Management should also have procedures for notifying governing board members when board meeting agendas include action or discussion items for which the governing board member has a personnel conflict to allow the board member to appropriately recuse themselves from participating in those matters. See the **Payroll section** for the various steps in the personnel and payroll processes that may require remediation if an employee or governing board member with related responsibilities has a personnel conflict. If the district fails to act, the individual with the conflict is still responsible for refraining from participating in any manner in the personnel and payroll processes related to their relative.

Further, A.R.S. §§15-421(D) and 38-503(D) prohibits districts from employing their governing board members or their governing board members' spouses either directly or as an employee of a third-party contractor, except for the employment of a substitute teacher in a small school district as allowed in A.R.S. §15-421(E).

The following personnel conflict example would require a COI disclosure:

A district hires a teacher whose parent is a school principal within the district. Both the teacher and principal must disclose the relationship on their respective COI disclosure forms. Upon disclosure, the district must take remedial action such as ensuring the teacher and principal are not assigned to work at the same school site. The principal must not participate in the hiring process in any manner.

Vendor conflicts

Vendor conflicts occur when an employee, governing board member, or their relative has a substantial interest in a vendor that provides or may provide goods and/or services to the district.[2] The governing board member or employee must refrain from voting upon or otherwise participating in any manner in any district contract, sale, purchase, or decision regarding the vendor in which they have a substantial interest. As such, the governing board member or employee should not be involved with the recommendation, discussion, procurement, approval, administration, or payment decisions or actions for the vendor.

The district should notify the conflicted individual(s) of their responsibilities for refraining and notify the procurement and accounts payable departments of any existing vendor conflicts so the individual with the conflict is not placed in a position to participate in any transaction with a vendor for which they have a conflict and is restricted from accessing electronic or paper records for the vendor, including projects the vendor could potentially bid on. Districts without a designated procurement or accounts payable department should reassign the specific supervisory or approval responsibilities as necessary to remediate the COI.

Management should also notify governing board members when board meeting agendas include action or discussion items for which the governing board members have vendor conflicts, to allow the board member to appropriately recuse themselves from participating. If the district fails to act, the employee or board member with the substantial interest is still responsible for refraining from

[2] For a governing board member this does not include a relative that is not a dependent, as defined in section A.R.S. §43-1001, based on the defined remote interests in A.R.S. §38-502(10).

participating in any manner in matters related to the vendor.

Further, A.R.S. §38-503(C) prohibits district employees from providing their district with any equipment, material, supply, or services and governing board members from providing their district with any services, unless the contract, sale, or purchase is awarded through public competitive bidding, regardless of the purchase's dollar amount. Additionally, A.R.S. §15-323 establishes a single transaction and annual purchase amount threshold for purchases of supplies, materials, and equipment from governing board members based on the number of students attending the district. See the **Procurement section** for more information on the procurement requirements for purchasing from district employees and governing board members.

Districts should establish a process to identify employee-owned and governing board member-owned vendors that are providing or interested in providing goods or services to the district to ensure proper procurement and COI procedures are followed.

The following vendor conflict example would require a COI disclosure and procurement:

A district governing board member owns a plumbing company that the district would like to use for repairs at a school site. The District must follow the School District Procurement Rules competitive bidding requirements before selecting a vendor to provide these services, and the board member must recuse themselves from participating in any manner related to this potential vendor relationship. For instance, the board member should refrain from participating in any discussions or decisions related to selecting the vendor or any subsequent actions if the company owned by the board member is selected, such as approving payments to the vendor. The board member must disclose their substantial interest on their COI disclosure form in sufficient detail so that others can understand the nature of the conflict.

Small school districts

Small school districts with limited staff may have difficulties remediating conflicts, especially if the individual with the conflict has a management or supervisory role with responsibilities for personnel or procurement decisions. Such districts are still required to comply with the statutory COI requirements and may need to reassign duties for appropriate remediation. For personnel conflicts, the district should consider whether there is an appropriate level of remediation to fully remove the individual with the conflict from participating in any transactions involving their relative.

PENALTIES

Any public officer or employee who intentionally or knowingly violates A.R.S. §§38-503 through 38-505 is guilty of a class 6 felony. Any public officer or employee who recklessly or negligently violates A.R.S. §§38-503 through 38-505 is guilty of a class 1 misdemeanor. Those found guilty must forfeit their public office or employment. A.R.S. §38-510

Further, any contract entered in violation of A.R.S. §38-501, et seq., is voidable by the district and any person affected by a district decision may commence a civil suit in the superior court for the purpose of enforcing the civil provisions of A.R.S. §38-501 et seq. A.R.S. §38-506

CONFLICT-OF-INTEREST DISCLOSURE FORM

Arizona law requires school district governing board members and employees to disclose a substantial interest they or their relative(s) have in any district contract, sale, purchase, service, or decision and refrain from participating in such contract, sale, purchase, or decision. A conflict of interest (COI) occurs when a public officer or employee does not follow those requirements and instead uses their official position to secure a valuable benefit for themselves or relatives that would not ordinarily accrue to them in the performance of their official duties. An individual has a substantial interest that must be disclosed when:

- They have a relative who works for the school district (personnel conflict).
- They or their relatives have a direct or indirect, nonspeculative financial or ownership interest in a business or organization that does or may provide goods or services to the school district (vendor conflict).

Relative is defined in A.R.S. §38-502 as a spouse, child, child's child, parent, grandparent, brother or sister of the whole or half blood and their spouses and the parent, brother, sister, or child of a spouse. For a governing board member this does not include a relative that is not a dependent, as defined in section A.R.S. §43-1001, based on the defined remote interests in A.R.S. §38-502(10).

If you have questions about whether or not a conflict exists, please consult your supervisor and department policies for guidance.

[ENTER DISTRICT NAME]

Name: _____ Date: _____

Type of disclosure: ☐ Initial ☐ Annual ☐ Update

Select one of the following:

☐ I am a District employee (includes full-time, part-time, or contract basis).

☐ I am a District governing board member.

Job title (for District employees only): _____

Please initial below to confirm you have read and understand each of the following statements.

_____ I understand my responsibility for disclosing my and my relative's conflicts of interest as required by A.R.S. §38-503 and [DISTRICT NAME] policy XXXX.

_____ I understand the statutory consequences for noncompliance with conflict-of-interest requirements as specified in A.R.S. §38-510 as well as any additional consequences imposed in accordance with [DISTRICT NAME] policy XXXX.

CONFLICT OF INTEREST

_____ I agree to comply with all conditions or restrictions the District imposes regarding my involvement in matters for which I or my relative have a conflict of interest.

_____ If I become aware of any changes to my or my relative's conflicts of interest, I agree to submit an updated disclosure form and make District management aware within fifteen (15) days of the change.

Disclosures

Select one of the following:

☐ I or my relative has **no** substantial interest in any contract, sale, purchase, service, or decision of [DISTRICT NAME].

☐ I or my relative has a substantial interest in a contract, sale, purchase, service, or decision of [DISTRICT NAME]. **(If this box is checked, you must fully describe the conflict(s) in the personnel and/or vendor conflict spaces below.)**

Personnel conflicts (Include relative name(s), position/job title, and nature of the relationship/substantial interest)

_____
_____
_____
_____
_____
_____

Vendor conflicts (Include business/organization name(s) and nature of the substantial interest, including whether it applies to you or your relative)

_____
_____
_____
_____
_____
_____

By signing below, I attest that I have completed this disclosure to the best of my knowledge and that my statements are true and complete; if a substantial interest has been disclosed, I will refrain from participating in any manner in any contract, sale, purchase, service, or decision for which I or my relative has a substantial interest.

Printed name _____ Date _____

Signature _____

CONFLICT OF INTEREST

For management completion only.

By signing below, I attest that I have reviewed this disclosure for completeness and have taken appropriate remediating action as indicated below (please select the type of remediation used and describe the specific action taken in the space provided below).

Administrator printed name _____ Date _____

Administrator signature _____

Remediation

☐ **Restrict—**Restrictions will be placed on the employee's/board member's involvement in this matter, and involvement will be monitored.

☐ **Recruit—**A neutral third party will be used to oversee part or all the process that deals with the matter.

☐ **Remove—**The employee/board member will be removed from their involvement in the matter that created the conflict.

Summary of district remediation action taken:

_____
_____
_____
_____
_____
_____
_____
_____

CALENDAR OF EVENTS

This calendar of events includes information on many of the annual and periodic requirements for school districts. However, the list primarily focuses on finance-related requirements unique to districts and is therefore not an all- inclusive list of general reporting requirements. The source of each requirement, such as Arizona Revised Statutes (A.R.S.), the Arizona Administrative Code (A.A.C.), or the Code of Federal Regulations (CFR) has been provided along with any applicable reference to further USFR guidance. To help ensure that the required dates are met for each item and for internal planning and control purposes, districts should specify additional, interim dates leading up to the final due dates for these items.

ANNUAL REQUIREMENTS

Date	Activity	Authority	USFR Guidance
Not later than July 5, or the date of publication of notice of the public hearing and governing board meeting	Districts must prepare an electronic copy of the **proposed expenditure budget** and submit it to the Superintendent of Public Instruction and the county school superintendent, unless the county school superintendent waives the requirement. Districts that maintain a website must provide a link on their website to their proposed budget summary on ADE's website.	A.R.S. §15-905(A)	**Budgeting section**; and **Expenditure Budget Packet**
Not later than July 5, but at least 10 days prior to the governing board meeting to adopt the proposed expenditure budget	Districts must publish a copy of the **proposed expenditure budget** or **budget summary**, and a notice of the public hearing and governing board meeting.	A.R.S. §15-905(C)	**Budgeting section**; and **Expenditure Budget Packet**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
At least 10 days, but not more than 20 days before a Truth in Taxation Hearing	Districts that plan to budget an amount higher than their **Truth in Taxation** base limit or plan to levy any amount for adjacent ways projects or liabilities in excess of the school district budget must meet the related publication, and hearing, and reporting requirements.	A.R.S. §15-905.01	**Expenditure Budget Packet**
By July 15	Districts must submit the **compensatory instruction budget** request to ADE.	A.R.S. §15-756.11	
By July 15	Districts must present the **proposed expenditure budget** at a public hearing immediately followed by a governing board meeting to adopt the budget.	A.R.S. §15-905 (B), (D), and (E)	**Budgeting section**; and **Expenditure Budget Packet**
By July 15	Districts should submit the **Vehicle Inventory Report (TRAN 03-01)** to the Superintendent of Public Instruction.	ADE's SF-0002—Transportation Guideline	
By July 18	Districts with levy fund liabilities payable at June 30 must file an **Advice of Encumbrance** with the county school superintendent. Accounting responsibility program districts are not required to file an Advice of Encumbrance with the county school superintendent but should perform duties as described in A.R.S. §15-304.	A.R.S. §15-906(B) and (E)	**Expenditures section**; and **Advice of Encumbrance**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By July 18	Districts must submit the **adopted expenditure budget** to the Superintendent of Public Instruction for posting on ADE's website. Districts must provide a link to the adopted budget on ADE's website.	A.R.S. §15-905(E)	**Budgeting section**; and **Expenditure Budget Packet**
Within 30 days after the date of publication of the proposed expenditure budget or summary	Districts must submit evidence of publication of the **proposed expenditure budget or summary** to ADE.	A.R.S. §15-905(C)	**Budgeting section**; and **Expenditure Budget Packet**
By the third Monday in August	The county must fix, levy, and assess the amount to be raised from **primary and secondary property taxes**.	A.R.S. §§15-992 and 42-17151(A)	
By September 1	Districts must file an estimate of **ESEA Title VIII Impact Aid monies** to be received during the current year with the county school superintendent.	A.R.S. §15-991(E)	

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
Between September 1 and October 31	Districts that have **unspent bond proceeds** must hold a public meeting to discuss and provide an update on the progress of its capital improvements financed through bonding. And Districts that have a **Maintenance and Operation (M&O) or Capital Outlay Override** must provide an update on previous year expenditures, current year budgeted expenditures, and the progress of any related capital improvements.	A.R.S. §15-491(K) A.R.S. §15-481(Y)	
By September 15	Districts that qualify to submit an **English language learner (ELL) budget request** to ADE must do so.	A.R.S. §15-756.03 (C)	
By October 1	Districts must make an **annual report** to the county school superintendent in the manner and form and on the blanks the Superintendent of Public Instruction or the county school superintendent prescribes.	A.R.S. §15-341(A) (18)	
By October 1	Districts must electronically submit their **K-3 Reading Expenditure Budget** for the budget year and **K-3 Reading Annual Financial Report** for the prior year to ADE as part of their required K-3 reading program plan.	A.R.S. §15-211	

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By October 15	Districts must submit a copy of the **Annual Financial Report** (**AFR)** , **including summary accounting records**, to the county school superintendent and electronically submit it to the Superintendent of Public Instruction. Accounting responsibility program districts are not required to submit a copy to the county school superintendent.	A.R.S. §15-904(A)	**Financial Reporting section**; and **AFR Packet**
By October 15	Districts must submit **teacher experience** information electronically to the Superintendent of Public Instruction for the current year. ADE captures this data through the School District Employee Report (SDER).	A.R.S. §15-941(C)	
By November 15	Districts must submit the **Classroom Site Fund Narrative Results Summary Report** to the Superintendent of Public Instruction.	A.R.S. §15-977(J)	**AFR Packet**
By November 15	Districts must publish the **AFR** or **AFR summary**.	A.R.S. §15-904(C)	**Financial Reporting section**; and **AFR Packet**
On or after publication of the AFR	Districts must submit evidence of publication of the **AFR** to ADE.	A.R.S. §15-904(C)	**Financial Reporting section**; and **AFR Packet**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By December 15	Districts that received notification from the Superintendent of Public Instruction that the **adopted expenditure budget is in excess** of the general budget limit or the unrestricted capital budget limit by 1 percent or more of the general budget limit must revise their expenditure budgets after publishing a notice of the public hearing and governing board meeting.	A.R.S. §15-905(E)	**Expenditure Budget Packet**
By December 31	Districts must submit the **Single Audit Qualifier Questionnaire** to ADE.	USFR	**State and Federal Grants section**
Before January 1	Districts intending to participate in the **Accounting Responsibility Program** for the following fiscal year must apply for an evaluation by the Arizona Auditor General and the county treasurer of the county in which the school district is located, to recommend approval or denial to the State Board of Education.	A.R.S. §15-914.01 (C) and (D)	
By January 15	Districts that elect to include their employees in the **State health and accident insurance coverage** for the next school year starting after June 30 must notify the Arizona Department of Administration of their intention.	A.R.S. §15-388(C)	

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By January 31	Districts must furnish each employee a completed **Form W-2** and each independent contractor a completed **Form 1099** for the calendar year just ended.	IRS Circular E	**Payroll section**
By February 28	Districts that receive fees or cash contributions for purposes listed in A.R.S. §43-1089.01 related to tax credits, such as for the support of **extracurricular activities or character education programs,** must report the monies received to the Arizona Department of Revenue in the manner the Department prescribes.	A.R.S. §43-1089.01	
Within 12 days after the first 100 or 200 school days, as applicable	Districts must file the **Transportation Route Report (TRAN 55-01)** electronically with the Superintendent of Public Instruction.	A.R.S. §15-922(A) and ADE's SF-0002—Transportation Guideline	
By April 1	Districts the State Board of Education informs to reduce their expenditures of local revenues due to **expenditures in excess of the aggregate expenditure limitation** for all school districts must adopt a revised expenditure budget for the current year.	A.R.S. §15-911(E)	

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By April 15	Districts must notify **certified administrators and certificated school psychologists** of the governing board's intention not to offer a new contract.	A.R.S. §15-503(D)	
No later than the last day of school	Districts must distribute an **annual report card** to ADE and to parents of enrolled pupils. Districts must also hold a public meeting to present a summary of the report's contents and provide notice at least 2 weeks prior to the meeting.	A.R.S. §15-746	
Before May 15	Districts must make **Expenditure budget revisions**.	A.R.S. §§15-905(I) and (J), 15-910.01 (C), and 15-943.01 (B)	**Expenditure Budget Packet**
By May 15	Districts must offer contracts for the next school year to **certified administrators and certificated school psychologists** who are in the last year of their respective contracts, unless notified otherwise by April 15.	A.R.S. §15-503(D)	
By June 1	Districts must file a statement of the actual amount of **ESEA Title VIII Impact Aid monies** received during the current year with the county school superintendent and the Superintendent of Public Instruction.	A.R.S. §15-991(E)	

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
By June 30	Districts must prepare a **list of levy fund liabilities** for goods received or services rendered on or before June 30 that will not be paid by June 30 of the current fiscal year.	A.R.S. §15-906(A)	**Expenditures section**
By June 30	Districts should return monies in the **petty cash account** to the M&O Fund or M&O Fund revolving bank account, as applicable, to ensure monies are recorded in the proper accounting period.	USFR	**Bank Accounts section**
At June 30	Districts must reimburse **all revolving bank accounts** to ensure expenditures are recorded in the proper accounting period.	USFR	**Bank Accounts section**
At least by June 30	Districts must remit **interest earned during the year** on the following bank accounts to the county treasurer for deposit in the district's M&O Fund: • State Income Tax Withholdings bank account. • Employee Insurance Programs Withholdings bank account. • Payroll Direct Deposit clearing bank account. • Electronic Payments clearing bank account.	A.R.S. §§15-1221, 15-1222, and 15-1223	**Bank Accounts** and **Payroll sections**
At June 30	Districts should prepare a **supplies inventory listing** for inventory held.	USFR	**Supplies Inventory section**

Date	Activity	Authority	USFR Guidance
Annually	Districts must submit an **annual ELL Report** to ADE.	A.R.S. §15-756.10	
Ongoing	Districts must prominently post the **average teacher salary information** on their website separate from their budgets.	A.R.S. §15-903(E)	
Ongoing	Districts must prominently post their **most recent Arizona Auditor General District Spending Report profile page** that displays the percentage of every dollar spent in the classroom on their website home page.	A.R.S. §41-1279.03 (A)(9)	

PERIODIC REQUIREMENTS

The following periodic requirements are listed in order of the related USFR Section.

Date	Activity	Authority	USFR Guidance
At least 35 days prior to an override election	Districts must mail or distribute the **informational pamphlet and sample ballot** provided by the county school superintendent.	A.R.S. §15-481(B)	**Budgeting section**
On the first Tuesday after the first Monday in November	Districts may hold an **election for authorization of an override** that will be funded by the levy of property taxes. (See A.R.S. §16-204 for allowable election dates for overrides funded from other sources.).	A.R.S. §15-481(D)	**Budgeting section**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
On the first Tuesday after the first Monday in November	A **special election** may be held: • To decide whether the bonds of the district shall be issued and sold. • To change the list of capital projects or the purposes authorized by prior voter approval to issue bonds.	A.R.S. §§15-491, 41-5802, and 16-204	**Budgeting section**
Second Tuesday in March, third Tuesday in May, tenth Tuesday before the first Tuesday after the first Monday in November, or first Tuesday after the first Monday in November	A **special election** may be held: • To locate or change the location of school buildings. • To purchase or sell school sites or buildings, sell school sites, or build school buildings. • To lease for 20 or more years, as lessor or as lessee, school buildings or grounds.	A.R.S. §§15-342(9) and (10), 15-491, 41-5802, and 16-204 unless otherwise exempted by A.R.S. §15-342(25)	**Procurement section**
At least once every 2 years	Districts must take a **physical inventory** of furniture, equipment, and vehicles purchased in whole or in part with federal monies, costing $5,000 or more, and reconcile inventory results to the capital assets list.	USFR and 2 CFR 200.313(d)(2)	**Property Control section**
At least once every 3 years	Districts must take a **physical inventory** of furniture, equipment, and vehicles and reconcile inventory results to the capital assets and stewardship lists.	USFR	**Property Control section**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
At least monthly	Districts must remit monies deposited in the **miscellaneous receipts clearing and Food Service Fund clearing bank accounts** to the county treasurer.	A.R.S. §15-341(A)(20) and Attorney General Opinion I60-35	**Bank Accounts section**
Within 10 working days after each payroll date	Districts must transfer employee contributions to a **deferred compensation plan** or federal retirement plan to the fund manager.	A.R.S. §15-121(C)	**Payroll section**
Within 14 calendar days after the end of each pay period	Districts must submit **State Retirement System contributions and withholdings** to the State Retirement System Board.	A.A.C. R2-8-122	**Payroll section**
Various dates	Refer to guidance for **payroll related filing requirements** from: Internal Revenue Service (IRS). Arizona Department of Economic Security. Arizona Department of Revenue.	IRS Circular E A.A.C. R6-3-1704(B) A.R.S. §§43-412 and 43-401(C)	**Payroll section**
Within 90 calendar days after the grant year	Districts must submit **federal project completion reports** to ADE.	2 CFR 200.344(a)	**State and Federal Grants section**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
Within the earlier of 30 days after receipt of the auditor's report or 9 months after the end of the audit period	Districts having a single audit or a financial statement audit must publicly accept all **audit reports and a USFR compliance questionnaire** at a governing board meeting by roll call vote and submit them to the entities described in the audit contract.	A.R.S. §15-914, USFR, and Uniform Guidance	**Audit Requirements section**
At least once every 20 school days	Districts must report **student membership data** to ADE.	A.R.S. §15-1042	**Student Attendance Reporting section**
At least once every 60 school days	Districts must report **student absence data** to ADE.	A.R.S. §15-901(A)	**Student Attendance Reporting section**
Before the beginning of the fiscal year	Districts must obtain approval from ADE if they elect to provide at least 200 days of instruction and increase their **base level** and **annual instructional hours**.	A.R.S. §15-902.04	**Student Attendance Reporting section**
Within 10 days after the end of each covered month	Districts must file **federal reimbursement claims** for meals served with ADE.	ADE policy	**Food Service section**
At least once each calendar month	Districts must submit a report of cash receipts, disbursements, transfers, and cash balances of the **Student Activities Fund** to the governing board.	A.R.S. §15-1123(A) and USFR	**Student Activities section**

CALENDAR OF EVENTS

Date	Activity	Authority	USFR Guidance
July 1, October 1, January 1, and April 1	Districts participating in an accommodation school agreement must remit **tuition payments** to the county school superintendent for accommodation school special education program costs.	A.R.S. §15-764(D)	
By May 1	Districts of attendance must provide districts of residence with the **final tuition charge** for the current year and with an estimate of the budget year's tuition charge.	A.R.S. §15-824(E)(2)	
September 30, December 31, and March 31	Districts of residence must pay at least one- fourth of the total amount of the **estimated tuition**.	A.R.S. §15-824(E)(2)	
By June 30	Districts of residence must pay the **remaining tuition** owed after any adjustments are made.	A.R.S. §15-824(E)(2)	
Upon occurrence	District's management should notify the Arizona Auditor General of all allegations of theft, fraud, or misuse of district monies and assets in a timely manner.	A.R.S. §15-824(E)(2) USFR	

CONTENTS

Topic

INTRODUCTION

- Account Code Structure
- Account Code Format
- Cost Allocation
- Indirect Cost Reporting

FUNDS

- Governmental Funds
- Fiduciary Funds
- Proprietary Funds

BALANCE SHEET

- Assets and Deferred Outflows of Resources
- Liabilities and Deferred Inflows of Resources
- Fund Balance/Fund Net Position

REVENUES

OTHER FINANCING SOURCES

UNUSUAL OR INFREQUENT INFLOWS

EXPENDITURES, OTHER FINANCING USES, AND UNUSUAL OR INFREQUENT OUTFLOWS

- Expenditure Programs
- Expenditure Functions
- Expenditure Objects
- Other Financing Use Objects
- Unusual or Infrequent Outflows
- Expenditure Units

AUTHORIZED TRANSFERS

JOURNAL ENTRIES

CAPITAL CODING TOOL

SOFTWARE CODING TOOL

This Chart of Accounts prescribed for school districts provides for the establishment of a complete fund accounting system, including the recording of assets, deferred outflows of resources, liabilities, deferred inflows of resources, fund balance/fund net position, revenues, other financing sources, expenditures and other financing uses.

The standardized account code structure for use by districts and county school superintendents accomplishes several key objectives:

- To ensure districts comply with U.S. generally accepted accounting principles (GAAP) the Governmental Accounting Standards Board (GASB) promulgated in its *Codification of Governmental Accounting and Financial Reporting Standards.*
- To establish a uniform, comprehensive, minimum chart of accounts State-wide to improve financial data collection, reporting, transmission, accuracy, and comparability among Arizona districts and nationally. *The Uniform System of Financial Records* (USFR) Chart of Accounts meets the requirements of the U.S. Department of Education's account classifications.
- To reduce the administrative burden on districts in preparing required financial reports.
- To create a logical framework that districts can use to determine where monies for education originate and how they are used.
- To provide better information for administrators, parents, board members, legislators, and other interested parties.

ACCOUNT CODE STRUCTURE

The account code structure provides a basis for financial reporting and budgeting and consists of the following required elements:

1. **FUND—**A fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual balances, and changes therein, which are separated to carry on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. Districts must organize and operate accounting systems on a fund basis. Individual funds are first classified by category and then by fund type within each category. See the **Fund Accounting section** for information on fund types for financial reporting purposes. There are 3 fund categories:
    a. **Governmental Funds—**Funds used to account for most of a district's financial resources based on the purposes for which these resources may or must be used.
    b. **Fiduciary Funds—**Funds used to account for fiduciary activities.
    c. **Proprietary Funds—**Funds used to account for a district's ongoing activities that are financed and operated in a manner similar to private business enterprises. Proprietary funds are generally self-sustaining with the primary source of revenues being user charges.
2. **BALANCE SHEET CLASSIFICATIONS—**Corresponds to items normally appearing on the

balance sheet. The primary account classifications are Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Balance/Fund Net Position.

3. **REVENUES AND OTHER FINANCING SOURCES CLASSIFICATIONS—**Separates revenues by source. The source classifications are Local, County, State, and Federal. Other Financing Sources and Other Items are also coded here.
4. **EXPENDITURES AND OTHER FINANCING USES CLASSIFICATIONS:**

Program

A plan of activities and procedures designed to accomplish a predetermined objective or set of objectives. This element provides the framework for classifying expenditures by objective to determine cost. The primary program classifications are Regular Education; Special Education; Career Technical Education; Pupil Transportation; Programs Requiring Separate Budgets; Other Instructional; Adult/Continuing Education; Community College Education; and Community Services.

Function

Describes the activity for which a service or material is acquired. The function classifications are Instruction, Support Services, Operation of Noninstructional Services, Facilities Acquisition and Construction, Debt Service, and Other Financing Uses.

Object

Describes the service or material obtained as the result of a specific expenditure. The object classifications are Personal Services—Salaries, Personal Services—Employee Benefits, Purchased Professional and Technical Services, Purchased Property Services, Other Purchased Services, Supplies, Property, and Debt Service and Miscellaneous. Other Financing Uses and Other Items are also coded here.

Unit

Separates expenditures by instructional level, such as elementary, high school, and district-wide and individual schools. Districts with some of their schools operating on an alternative calendar must separately budget for such schools within the district.

Optional Elements

Each required element of the account code contains a specified number of digits in a specific configuration as illustrated on the next page. However, for internal management purposes, districts may assign additional, nonrequired elements, such as course or job classification. Add such elements after the unit code element in the account code.

Course

To accumulate costs of providing instruction in particular courses or subject groups, such as English, math, and science. As an alternative to using a separate optional

element for course codes, districts may establish course codes under function **1000—Instruction**.

Job Classification

To further break down expenditures for salaries and benefits by purpose, bargaining unit, or otherwise, such as office/clerical, administrative, professional-education, technical, and laborer.

Besides Course and Job Classification, districts may choose to categorize transactions by time of year, bus route, construction project, or any other method useful to the district.

ACCOUNT CODE FORMAT

The table below illustrates the required account code format. Each required element must contain the specified number of digits and must be in the specified location in the account code structure. Balance sheet and revenues and other financing sources accounts consist of fund and object code elements only. Other elements are generally zero filled. However, a district may choose to use program, function, and unit codes to better track revenues. Expenditures and other financing uses accounts consist of fund, program, function, object, and unit code elements.

Required account code numbers are shown in the Chart of Accounts in bold type. Optional numbers are italicized and not bolded. Districts are required to record transactions to the most detailed bold level for all areas.

BALANCE SHEET:

Fund	Program	Function	Object	Unit
XXX	000	0000	0XXX	000

REVENUES AND OTHER FINANCING SOURCES:

Fund	Program	Function	Object	Unit	
XXX	000	0000	1XXX	000	Revenue from local sources
XXX	000	0000	2XXX	000	Revenue from county sources
XXX	000	0000	3XXX	000	Revenue from State sources
XXX	000	0000	4XXX	000	Revenue from federal sources
XXX	000	0000	5XXX	000	Other financing sources and other items

EXPENDITURES AND OTHER FINANCING USES:

Fund	Program	Function	Object	Unit	
XXX	XXX	XXXX	6XXX	XXX	(place optional elements here)

COST ALLOCATION

Expenditures specifically assignable to 2 or more programs, functions, or units must be allocated among those programs, functions, or units. For example, the salary of a teacher who teaches both regular education and special education must be allocated between programs **100** and **200**, the salary of an individual who works in a district warehouse and also drives a school bus must be allocated between functions **2500** and **2700**; and the salary of a maintenance worker who works at 2 schools must be allocated between the applicable school unit codes.

Districts may use an allocation base to allocate specifically assignable expenditures for which actual cost apportionment is not easily determinable. Commonly used allocation bases include average daily membership, time spent, full-time equivalent teaching staff, number of transactions, floor space occupied, labor hours, meals served, miles driven, and driver hours. The allocation base used can greatly affect the accuracy of cost allocation; therefore, districts should choose an allocation base that will most closely approximate actual costs incurred. Costs requiring allocation that are not allocated when incurred must be allocated by journal entries before the accounting records are closed at fiscal year-end.

Indirect costs such as utilities and building rent are not allocated among the various programs or functions. However, the school-level reporting instructions in the annual financial report describe requirements for allocating district-wide costs at the unit code level.

INDIRECT COST REPORTING

The United States Department of Education (US DOE) allows the Arizona Department of Education (ADE) to establish the indirect cost rates for school districts receiving federal grants through an approved delegation agreement. To facilitate the calculation of indirect costs, districts should classify the expenditures in the related function and object codes included throughout the Chart of Accounts.

To ensure executive administration and heads of components costs are reported accurately for indirect cost reporting, districts should classify expenditures associated with executive administration and employees that are considered heads of components, including their office support staff (e.g., administrative assistants, secretaries) in the required heads of components detailed function codes within the functional area they direct.

Executive Administration

The Superintendent and any administrators with key decision-making authority over all or 1 or more parts of district operations. Costs associated with Executive Administration, including any office support staff (e.g., administrative assistants, secretaries) working directly for these administrators are classified in function **2320—Executive Administration**.

Heads of Components

Administrators that directly report to a member of the district's executive administration (see definition above). These administrators are generally shown on an organizational chart as 1 management level below the executive administration. Costs associated with heads of components, including any office support staff (e.g., administrative assistants, secretaries) working directly for these administrators are classified in the heads of components detailed functions provided throughout the chart.

For example, districts would classify an administrator over business operations, such as a Chief Financial Officer or Associate Superintendent for Business Operations that has the authority to make key decisions for district business operations in **2320** as an executive administrator. Districts would classify an administrator that directs the business office staff and reports to that executive administrator, such as a business manager, in **2530** as a head of component rather than **2510—Fiscal Services** to allow for correct treatment of those costs in the indirect cost rate calculation.

Code	Description
001	**Maintenance and Operation**—Accounts for all of a district's financial resources except those required to be accounted for in another fund. For example, districts cannot use this fund for transactions related to capital items as funds in the **600** range are generally used to account for capital transactions.
010	**Classroom Site Fund—**Accounts for the portion of State sales tax collections and permanent State school fund earnings districts receive. Districts must use the monies in this fund to supplement, and not supplant, existing monies. Districts can use monies for class size reduction; teacher compensation increases, including a base pay and performance pay component; assessment intervention programs; teacher development; dropout prevention programs; teacher liability insurance premiums; student support services (as defined in function **2100—Support Services—Students**); and registered warrant expenses for the fund. Expenditures for class size reduction, assessment intervention, and dropout prevention programs must be appropriate expenditures under function **1000—Instruction**, excluding athletics. A.R.S. §15-977 *011-019* Districts may establish subfunds in this range, that roll up to 010 for reporting purposes, to account for carryover balances or monies received that are restricted for different purposes by A.R.S. §15-977.
020	**Instructional Improvement—**Accounts for monies received from State gaming revenue. Districts may use up to 50 percent of the monies received for teacher compensation increases and class size reduction as provided in A.R.S. §15-977. The expenditures for class size reduction, if any, must be appropriate expenditures under function **1000—Instruction**, excluding athletics. Districts may use the remaining monies for the following maintenance and operation purposes: dropout prevention programs and instructional improvement programs, including programs to develop minimum reading skills for students by the end of the third grade. The monies in the fund may not be used to supplant existing State and local monies. A.R.S. §15-979
050	**County, City, and Town Grants—**Accounts for monies received from county, city, and town grants.

Code	Description
071	**English Language Learner (ELL)—**Accounts for monies received to provide for the incremental cost of ELL instruction and must be used to supplement existing programs. In accordance with A.R.S. §15-756.03, monies must not be used to supplant federal, State, or local monies, including desegregation monies, previously used for ELLs, or used to pay for the normal costs of conducting programs for English-proficient students. As defined in A.R.S. §15-756.01, incremental costs are the costs that are associated with a structured English immersion program pursuant to A.R.S. §15-752 or an alternative English instruction program pursuant to A.R.S. §15-753 and that are in addition to the normal costs of conducting programs for English-proficient students. Incremental costs do not include costs that replace the same types of services provided to English-proficient students or compensatory instruction. A.R.S. §15-756.04
072	**Compensatory Instruction—**Accounts for monies received for compensatory instruction programs, in addition to normal classroom instruction, that may include individual or small group instruction, extended day classes, summer school, or intersession school. These programs are limited to improving the English proficiency of current ELLs and students who have been reclassified from ELL to English-proficient within the previous 2 years. Districts must not use monies to supplant federal, State, or local monies, including desegregation monies, previously used for ELLs. A.R.S. §15-756.11
Federal Projects	A group of funds used to account for revenues and expenditures of federally funded projects. Districts should establish a separate fund for each individual program. If a federal project is not specifically listed or included in a fund range below, districts should assign an unassigned fund number in the 300-399 range for that project.
100-130	**ESEA Title I—Helping Disadvantaged Children Meet High Standards**
140-150	**ESEA Title II—Professional Development and Technology**
160	**ESEA Title IV—21st Century Schools**
170-180	**ESEA Title V—Promote Informed Parent Choice**
190	**ESEA Title III—Limited English & Immigrant Students**
200	**ESEA Title VII—Indian Education**
210	**ESEA Title VI—Flexibility and Accountability**

Code	Description
220	**IDEA Part B**
230	**Johnson-O'Malley**
240	**Workforce Investment Act**
250	**AEA—Adult Education**
260-270	**Vocational Education—Basic Grants**
280	**ESEA Title X—Homeless Education**
290	**Medicaid Reimbursement**
349	**National Forest Fees**
353	**Taylor Grazing Fees**
374	**E-Rate (A.R.S. §15-1261)**
378	**Impact Aid [A.R.S. §15-905(R)]**
300-399	**Other Federal Projects**
State Projects	A group of funds used to account for revenues and expenditures of State-funded projects. If a State project is not specifically listed below, districts should assign an unassigned fund number in the 465-499 range for that project.
400	**Vocational Education**
410	**Early Childhood Block Grant**
420	**Ext. School Yr.—Pupils with Disabilities (A.R.S. §15-881)**
425	**Adult Basic Education (A.R.S. §15-234)**
430	**Chemical Abuse Prevention Programs (A.R.S. §15-712)**
435	**Academic Contests (A.R.S. §15-1241)**
450	**Gifted (A.R.S. §15-779.03)**
456	**College Credit Exam Incentives (A.R.S. §15-249.06)**

Code	Description
460	**Environmental Special Plate (A.R.S. §41-6013)**
484	**Failing Schools Tutoring Grant (A.R.S. §15-241)**
465-499	**Other State Projects**
500	**School Plant**—Accounts for monies received from the sale, lease, or condemnation of school property and used as specified in A.R.S. §15-1102. However, districts must follow statutory requirements related to monies received from sales of school property, including returning monies received from the sale of land or buildings originally purchased with New School Facilities Fund monies to the State in accordance with A.R.S. § 41-5741(F), and transferring proceeds to the School Facilities Oversight Board in accordance with §15-341(G) and 15-342(10). 501-504 Districts may establish subfunds in this range, which roll up to 500 for reporting purposes, to account for monies received that are restricted for different purposes by A.R.S. §15-1102.
510	**Food Service**—Accounts for the financial operations of school activities that have as their purpose the preparation and serving of regular and incidental meals and snacks in connection with school functions. A.R.S. §15-1154 511-514 Districts that receive Fresh Fruits and Vegetables Program and/or NSLP Equipment grant monies must establish subfunds in this range to separately account for each grant. These funds should roll up to Fund 510 for reporting purposes.
515	**Civic Center**—The district's governing board may permit the use of school facilities under its direction for civic activities as defined in A.R.S. §15-1105, such as parent-teacher association meetings, public forums, lectures, and clubs. Except as provided in A.R.S. §15-1102 related to the School Plant Fund, monies received for use of school facilities and the related expenditures must be accounted for in this fund. In accordance with A.R.S. §15-342(29), if program needs are met, districts may use excess monies for maintenance and operation or unrestricted capital outlay purposes. Upon termination of the civic center school program, districts must transfer any unused monies to the School Plant Fund (**500**).

Arizona Industry Credentials Incentive monies must be recorded in Fund 597.

Code	Description
520	**Community School**—Accounts for revenues and expenditures for purposes of academic and skill development for all citizens in accordance with A.R.S. §15-1141 et seq. In accordance with A.R.S. §15-342(30), if program needs are met, districts may use excess monies for maintenance and operation or unrestricted capital outlay purposes. Upon termination of a community school program, districts must transfer any unused monies to the Maintenance and Operation Fund (**001**). A.R.S. §15-1143
525	**Auxiliary Operations**—Accounts for revenues and expenditures arising from bookstore operations, athletic operations, and miscellaneous district-related operations. Revenues may include the sale or rental of books, supplies and materials; course fees; fees for optional, noncredit, educational, or recreational activities; deposits for the use of district supplies; athletic gate receipts and concession sales; and other miscellaneous receipts. Districts may also use this fund to account for revenues and expenditures of monies collected in support of extracurricular activities to be taken as a tax credit by the taxpayer in accordance with A.R.S. §43-1089.01 and spent on the activities for which they are collected. Districts must maintain detailed records to ensure that tax credit monies are used only for allowable expenditures and in support of both the school and purpose the taxpayer designated.
526	**Extracurricular Activities Fees Tax Credit**—Accounts for revenues and expenditures of monies collected in support of extracurricular activities for the taxpayer to take as a tax credit in accordance with A.R.S. §43-1089.01. Districts should spend amounts in this fund on the activities for which they are collected and must maintain detailed records to ensure that they use tax credit monies only for allowable expenditures and in support of both the school and purpose the taxpayer designates. Districts may choose to account for these monies in the Auxiliary Operations Fund rather than this fund.
530	**Gifts and Donations**—Accounts for the revenues and expenditures of gifts, donations, bequests, and private grants made to a district. Districts must use any balance remaining in this fund after expenditures for the intended purpose have been made, to reduce taxes if not inconsistent with the donor's terms for the gifts, grants, and devises. A.R.S. §15-341(A)(14)
535	**Career and Technical Education Projects**—Accounts for revenues and expenditures from the sale of items produced or services provided in an instructional program by career and technical education pupils. Districts must transfer monies in the fund in excess of $100,000 at fiscal year-end to the M&O Fund (**001**). A.R.S. §15-1231

Code	Description
540	**Fingerprint**—Accounts for revenues and expenditures related to fingerprinting employees. A.R.S. §15-512
545	**School Opening**—Accounts for monies transferred in from the Maintenance and Operation Fund (**001**) ending cash balance for districts to use for maintenance and operation purposes incurred in the first year of operation of a new school within a district. At the end of 5 years without any activity in the fund, districts must transfer any remaining monies to the Maintenance and Operation Fund. A.R.S. §15-943.01
550	**Insurance Proceeds**—Accounts for the monies received from insurance claims. Insurance proceeds are not considered revenues under GAAP, but districts should record them as other financing sources in object code **5300** or as unusual or infrequent items in object code **5700**, as applicable. Districts may use such proceeds to pay outstanding bonded indebtedness or to construct, acquire, improve, repair, or furnish school property after notice, or if applied to a project costing more than $250,000 after notice and a hearing. A.R.S. §15-1103
555	**Textbooks**—Accounts for monies received from students to replace or repair lost or damaged textbooks, subject matter materials, supplementary books, or instructional computer software in accordance with A.R.S. §15-729. Additionally, districts may account for monies received from students to replace or repair lost or damaged library books here. Districts should account for monies received from the sale of books and other printed materials in the Auxiliary Operations Fund (**525**).

Code	Description
565	**Litigation Recovery**—Accounts for monies received for and derived from the settlement of legal controversies or from the recovery of costs, attorney fees, or damages in litigation by or against a district in accordance with A.R.S. §15-1107. Districts may make expenditures from the fund to procure legal services or for the costs of litigation, or for remedial measures reasonably related to a legal controversy or litigation by or against the district. However, if monies are received specifically for the purpose of replacing or repairing school buildings or other school property, districts may use the monies to: 1. Reimburse the ADOA School Facilities Division's Building Renewal Grant (**691**) or Emergency Deficiencies Correction (**686**) Funds to the extent that monies were received from those funds for replacing or repairing school buildings or other school property that was the subject of the dispute and the monies recovered by the school district are designated for the replacement or repair. 2. Pay any outstanding bonded indebtedness of a district that is payable from the levy of taxes on property within a district. 3. Construct, acquire, improve, repair, or furnish school buildings after notice, or if applied to a project costing more than $250,000 after notice and a hearing. 4. Replace or repair school property other than school buildings. After all other expenditures authorized in A.R.S. §15-1107, a district may use remaining monies in this fund for maintenance and operation or unrestricted capital outlay purposes.
570	**Indirect Costs**—Accounts for monies transferred into this fund (object code **5200**) from federal project funds or the Food Service Fund (**510**). These transfers are for indirect costs related to federal grants based on an Arizona Department of Education approved indirect cost rate and interest earned on federal grant monies that is not required to be reverted. Federal guidance restricts the use of interest retained by districts to administrative expenditures. Districts that choose to transfer allowable federal program interest to this fund should separately track the use of those monies to document compliance with the federal guidance.
575	**Unemployment Insurance**—Used by districts using the reimbursement method of accounting for unemployment insurance contributions. Deposits to this fund consist of contributions from other funds. Expenditures consist of reimbursement payments to the Department of Economic Security. When the governing board determines that monies accumulated are in excess of insurance needs, the district must use the excess to reduce district taxes for the budget year. A.R.S. §15-1104

Code	Description
580	**Teacherage**—Accounts for the operations of district housing facilities provided for district employees that the governing board determined necessary for district operation. Revenues consist of lease receipts. Disbursements consist of payments for maintenance, operation, and debt service related to teacherages. Also, districts located on Indian and federal lands may purchase houses, including mobile and modular housing, to use exclusively as teacherages. Districts may use monies in this fund to reduce local taxes if accumulation in the fund warrants such use. A.R.S. §§15-342(6) and 15-1106
585	**Insurance Refund**—Accounts for insurance premium payments that are refunded to a district at the end of a fiscal year. Districts may use the monies for insurance premium payments; place the monies into a trust to be used for payments of uninsured losses, claims, defense costs, and other related expenses as provided in A.R.S. §15-382; or use the monies for reduction of district taxes in the budget year. A.R.S. §15-386
590	**Grants and Gifts to Teachers**—Accounts for grants and gifts under $1,500 received from private sources that are designated for a teacher to use for instructional purposes. A.R.S. §15-1224
595	**Advertisement**—Accounts for monies received from the sale of advertising that districts may use for any district purpose. A.R.S. §15-342(27)(c)
596	**Career Technical Education**—Accounts for monies member districts receive from Career Technical Education Districts for vocational education programs. A.R.S. §15-393
597	**Arizona Industry Credentials Incentive**—Accounts for incentive monies received based on high school graduates who obtain a certification, credential, or license through a career technical education course or program that a vocation or industry accepts. Districts should use monies received in accordance with A.R.S. §15-249.15.

Code	Description
610	**Unrestricted Capital Outlay**—Accounts for transactions relating to the acquisition of items by purchase, lease-purchase (GASB Statement No. 87 reclassified contracts that transfer ownership as financed purchases), or lease as prescribed by A.R.S. §15-903(C). Revenues include equalization assistance, tuition, property taxes, and interest on investments. Expenditures include: 1. Land, buildings, and improvements to land and buildings, including labor and related employee benefits costs and material costs if district employees perform the work. 2. Furniture, furnishings, athletic equipment, and other equipment, including computer software. 3. Pupil and nonpupil transportation vehicles and equipment, including all capital expenditures within a contract if a district contracts for pupil transportation. 4. Textbooks and related printed subject matter materials adopted by the governing board. 5. Instructional aids. 6. Library books. 7. Payment of principal and interest on bonds. 8. District administration emergency needs that are directly related to pupils.
620	**Adjacent Ways**—Accounts for transactions relating to special assessments to finance the improvement of public ways adjacent to school property, in accordance with A.R.S. §15-995.

Code	Description
630	**Bond Building**—Accounts for proceeds from district bond issues that are used for acquiring or leasing school sites; constructing or renovating school buildings; supplying school buildings with furniture, equipment, and technology; improving school grounds; purchasing pupil transportation vehicles; or paying existing bonded indebtedness in accordance with A.R.S. §15-491(A)(3). Districts must expend bond proceeds for voter-authorized purposes and not for items with useful lives less than the average life of the bonds issued or 5 years in accordance with A.R.S. §15-1021(F). Districts record bond proceeds as other financing sources in object code **5110** or **5120**, as applicable. Districts must use interest earned on investments to reduce outstanding bonded indebtedness, unless a district requests the monies be deposited in the Bond Building Fund if federal laws or rules require the districts to use interest for capital expenditures, or the voters authorized the district to credit the interest to the Bond Building Fund in a separate question in a bond election. If there is no outstanding bonded indebtedness, districts should use any balance remaining in this fund, after acquisition and construction is completed, on written request of the governing board, to reduce taxes. A.R.S. §15-1024
639	**Impact Aid Revenue Bond Building**—Accounts for proceeds from impact aid revenue bond issuances that districts use for capital projects authorized in accordance with A.R.S. §15-491. Districts may also use the proceeds for bond-related expenses and other costs as allowed by A.R.S. §41-5802. Districts record bond proceeds as other financing sources in object code **5110** or **5120**. Districts must credit interest earned on investment of these monies to the Impact Aid Revenue Bond Debt Service Fund. After districts complete the acquisition or construction of facilities for which the bonds were issued, and after the payment of other related costs, districts must transfer the remaining balance to the Impact Aid Fund (**378**). A.R.S. §§15-905(R), 41-5804, 41-5807, and 41-5808
650	**Gifts and Donations**—Capital—Accounts for gifts and donations districts use for capital acquisitions. Districts must use any balance remaining in this fund after expenditures for the intended purpose have been made to reduce taxes if not inconsistent with the donor's terms for the gifts, grants, and devises. A.R.S. §15-341(A)(14)

Code	Description
660	**Condemnation**—Accounts for monies from condemnations or right-of-way settlements as described below: 1. Proceeds from sales by condemnation or threat of condemnation may be accounted for in this fund. If accounted for in this fund, districts must use these proceeds either: a. For the payment of outstanding bonded indebtedness that is payable from the levy of taxes upon the property within the district, or b. To construct, acquire, improve, repair, or furnish school facilities or sites after notice and a hearing. 2. Districts must account for proceeds from a right-of-way settlement in this fund. Districts must use these proceeds to construct, acquire, improve, repair, or furnish school facilities or sites after notice and a hearing. After 10 years, districts must transfer any unused monies to the School Plant Fund (**500**). A.R.S. §15-1102(E) and (F)
665	**Energy and Water Savings (EWS)**—Accounts for capital investment monies, energy-related rebate or grant monies, and monies from other funding sources, including clean renewable energy bonds, to fund energy or water saving projects in school facilities in accordance with A.R.S. §15-910.02. This fund also accounts for payment amounts transferred to the EWS Fund from the Maintenance and Operation Fund (**001**). Districts may transfer any monies associated with an energy or water savings project remaining in the fund after capital investment monies are repaid in full to the Maintenance and Operation Fund.
686	**Emergency Deficiencies Correction**—Accounts for monies received from ADOA's School Facilities Division to correct emergency deficiencies. A.R.S. §41-5721
691	**Building Renewal Grant**—Accounts for building renewal grant monies that districts may request from ADOA's School Facilities Division. Districts may use these monies for major renovations and repairs to buildings used for student instruction or other academic purposes, upgrading systems and areas that will maintain or extend buildings' useful lives, and infrastructure costs. Districts may not use these monies for new construction; remodeling interior space for aesthetic or preferential reasons; exterior beautification; demolition; routine preventive maintenance; or any project in a building, or part of a building, that districts are leasing to another entity. Districts must return any monies remaining in the fund after the expiration of a grant, to the School Facilities Division. A.R.S. §41-5731

Code	Description
695	**New School Facilities**—Accounts for monies received from ADOA's School Facilities Division. Districts may use these monies for constructing new school facilities and purchasing land for new school sites. Districts may use any extra monies received as a result of a modification based on geographic conditions or site conditions to address unforeseen costs at any stage of a project. Districts may use any surplus monies received from the School Facilities Division only for capital purposes for the project up to 1 year after completion of the project. Districts must return any surplus monies remaining after 1 year to the School Facilities Division. A.R.S. §41-5741
699	**Federal Impact Aid (Construction)**—Accounts for impact aid monies that districts receive specifically for construction.
700	**DEBT SERVICE FUNDS**—Accounts for the accumulation of resources and the payment of principal and interest on bonds. A.R.S. §15-1022 If there is no outstanding bonded indebtedness, any balance remaining in or accruing to this fund, on written request of the governing board, must be used to reduce taxes. A.R.S. §15-1028
720	**Impact Aid Revenue Bond Debt Service**—Accounts for impact aid monies received and interest earned that districts use for the payment of impact aid revenue bond principal and interest payments. Districts must transfer any surplus monies remaining in the fund to the Impact Aid Fund (**378**). A.R.S. §§15-905(R), 41-5804, 41-5807, 41-5808, and 41-5809
750	**PERMANENT FUNDS**—Accounts for resources that are legally restricted to the extent that districts may use only earnings, and not principal, for purposes that support district programs.

Code	Description
850-899	Prior to Governmental Accounting Standards Board Statement No.84 the funds listed in this range were fiduciary funds (850) or authorized bank accounts with fiduciary type activities (855 and 865). As a result, these funds are listed here out of sequence to avoid requiring districts to change long-standing fund numbers. Funds 800-849 are covered on the next page. Districts should include Fund 850 with other governmental funds in financial statement reporting. While districts may continue using funds 855-899 for activity related to the listed, statutorily-established bank accounts, they should work with their auditors to ensure correct financial statement presentation.
850	**Student Activities—**Accounts for all monies raised with the governing board's approval by students' effort in pursuance of or in connection with all activities of student organizations, clubs, school plays, or other student entertainment other than Auxiliary Operations Fund monies. A.R.S. §15-1121
855	**Employee Insurance Program Withholdings—**Accounts for insurance premium monies received from current and former employees, board members, and board member's surviving spouses. Districts may also contribute monies to the account to pay insurance premiums. Disbursements may only be made to insurance carriers or to make refunds of insurance premiums to individuals. The governing board must transfer any interest at fiscal year-end to the Maintenance and Operation Fund. A.R.S. §15-1223
865	**State Income Tax Withholdings—**Accounts for monies withheld from employees for State income tax until remitted to the Arizona Department of Revenue. Districts may make disbursements only to the Department of Revenue. The governing board must transfer any interest at fiscal year-end to the Maintenance and Operation Fund. A.R.S. §15-1222

Code	Description
800-849	**Trust and Custodial Funds** **Pension (and Other Employee Benefit) Trust Funds**—Accounts for resources that districts hold in a trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other benefit plans. Typically, districts use these funds to account for local pension and other employee benefit trusts that a district provides in lieu of or in addition to any State retirement system. Districts should include monies to fund other postemployment benefits (OPEB) that districts deposit in a trust account in accordance with A.R.S. §15-1225 as a Pension Trust Fund (OPEB Trust Fund). The OPEB Trust Fund accounts for monies accumulated to pay for postemployment benefits offered to district employees or their spouses and dependents. This fund may be used for administrative and management costs and payment of benefits. Postemployment benefits do not include benefits the Arizona State Retirement System provides. If districts do not deposit monies to fund other postemployment benefits in a trust account, they should account for them in an **Internal Service Fund**. **Investment Trust Funds**—Accounts for the external portion (i.e., the portion that does not belong to a district) of investment pools a district operates that the district holds in a trust. **Private-Purpose Trust Funds**—Accounts for other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments. **Custodial Funds**—Accounts for fiduciary activities not held in a trust.

Code	Description
900-949	**Enterprise Funds**—Accounts for activities that provide goods or services to external users for a fee. Districts are required to use enterprise funds to account for any activity whose principal revenue sources meet any of the following criteria: (1) debt backed solely by revenues from fees and charges (thus, not debt that is backed by the full faith and credit of a district); (2) legal requirement to recover costs through fees and charges; (3) the governing board's or management's policy decision to recover the costs of providing services through fees or charges.
950-989	**Internal Service Funds**—Accounts for activities that provide goods or services to other funds, departments, component units, or other governmental entities on a cost-reimbursement basis. The use of an internal service fund is appropriate only for activities in which a district is the predominant participant in the activity. Otherwise, districts should report the activity as an enterprise fund. Examples of internal service funds are activities such as central warehousing and purchasing, central data processing, central printing and duplicating, motor pool services, and self-insurance. Districts with an ADE-approved grant cost allocation plan should record those pooled costs in an Internal Service Fund and charge the applicable grants for services provided. Districts should account for District Services Funds established in accordance with A.R.S. §15-1108 as Internal Service Funds. Districts should account for monies to fund other postemployment benefits (OPEB) that are not deposited in a trust account in accordance with A.R.S. §15-1225 as an Internal Service Fund (OPEB Fund). The OPEB Fund accounts for monies accumulated to pay for postemployment benefits offered to district employees or their spouses and dependents. Districts may use this fund for administrative and management costs and payment of benefits. At the end of 5 years of no activity in the fund, districts must transfer any remaining monies to the Maintenance and Operation Fund. Postemployment benefits do not include benefits the Arizona State Retirement System provides. A.R.S. §15-1225

Code	Description
955	**Intergovernmental Agreements (IGA)**—Used only by a fiscal agent to account for monies related to other members of a written IGA, including agreements to provide services jointly with other districts. Revenues reported in this fund include amounts received by the fiscal agent from participants or other funding such as grants through the fiscal agent. Expenditures include salaries, supplies, pass-through payments (see object code **6870**), etc., related to the agreement. The fiscal agent should report revenues and expenditures to other IGA participants monthly. Each participant should recognize (i.e., record) their appropriate share of revenues and expenditures in the fiscal year incurred. Transactions processed in this fund during the year may include activity of the fiscal agent district. However, before fiscal year-end, fiscal agent districts should remove, through an adjusting journal entry, any of their own activities and record those revenues and expenditures in an appropriate district fund. A.R.S. §15-342(13)

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

Object Code	Description
0100	CASH ***(Use detailed codes below)***
0101	**Cash on Hand**—Currency, coins, checks, warrants, postal and express money orders, and bank drafts on hand physically located at a district or in the possession of its representative, such as cash from sales of student lunches that districts have not deposited in the bank.
0102	**Cash in Bank**—All funds on deposit in a financial institution, including time certificates of deposit. Districts should record revolving fund monies here.
0103	**Cash on Deposit with County Treasurer**—All funds on deposit with the county treasurer who, by statute, is the designated custodian of district cash and bank deposits.
0105	**Cash with Fiscal Agent**—Deposits with fiscal agents, such as commercial banks, for paying matured bonds and interest.
0110	**INVESTMENTS**—U.S. government securities and other investments held for the earning of income in the form of interest or dividends. Districts should present investments at fair value as of the reporting date. Districts should code gains and losses from changes in the fair value of investments to revenue object code **1530**.
0111	**Unamortized Premiums**—Used only with short-term money market investments and participating interest-earning investment contracts.
0112	**Unamortized Discounts (Credit)**—Used only with short-term money market investments and participating interest-earning investment contracts.
0120	TAXES RECEIVABLE ***(Use detailed codes below)***
0121	**Personal Property Taxes Receivable—Current Year**—The uncollected portion of the tax levy for personal property that has become due, including interest or penalties that it may accrue.
0122	**Personal Property Taxes Receivable—Back (prior years)**—The uncollected portion of the tax levy for personal property that was due, including interest or penalties that it may accrue.

Object Code	Description
0123	**Real Property Taxes Receivable—Current Year**—The uncollected portion of the tax levy for real property that has become due, including interest or penalties that it may accrue.
0124	**Real Property Taxes Receivable—Back (prior years)**—The uncollected portion of the tax levy for real property that was due, including interest or penalties that it may accrue.
0130	OTHER RECEIVABLES ***(Use detailed codes below)***
0131	**Revenue in Lieu of Taxes Receivable**—For example, payments from Salt River Project.
0132	**Accounts Receivable**—Amounts due on open account from individuals or other entities.
0134	**Interest Receivable**—Amount of interest receivable on investments.
0135	**Refundable Deposits Receivable**—District monies business entities or individuals hold as security or as a prerequisite to receiving goods or services.
0136	**Notes Receivable**—Amounts due from a note or mortgage received from the sale of district buildings or property.
0137	**Leases Receivable**—Amounts due from leases measured at the present value of lease payments districts expect to receive during the lease term.
0140	DUE FROM OTHER FUNDS AND GOVERNMENTAL ENTITIES ***(Use detailed codes below)*** **These amounts may represent grants-in-aid, shared taxes, taxes another governmental unit collects for a district, charges for goods or services rendered, and monies other governmental units hold as security.**
0141	**Due from Other Funds**
0142	**Due from Other Districts**
0143	**Due from County**
0144	**Due from State**

Object Code	Description
0145	**Due from Federal**
0150	**PREPAID ITEMS**—Cash outlays for benefits that districts have not received.
0151	*Insurance*—Amounts paid for insurance coverage not yet received, such as fire insurance and property insurance paid in advance.
0160	**INVENTORY OF SUPPLIES FOR CONSUMPTION**—Supplies on hand, valued at cost, that districts will use for district operations.
0161	*Supplies*—General supplies used in district operations.
0162	*Fuel and Oil*—Supplies used for transportation activities.
0170	**INVENTORY OF SUPPLIES FOR SALE OR RENTAL**—Inventory on hand, valued at cost or market, that districts will sell or rent.
0171	*Bookstore*—Inventory the bookstore will sell or rent.
0172	*Food and Milk*—Food service inventory, including USDA commodities.
0180	OTHER CURRENT ASSETS ***(Use detailed codes below)***
0182	**Premium and Discount on Issuance of Bonds**—Represents amounts districts will amortize as debt premium/discount in connection with the issuance of bonds.
0185	**DEFERRED OUTFLOW OF RESOURCES—**Represents net assets the district consumes related to a future reporting period. Districts should include only the following items in this code: 1. The difference between the reacquisition price and the net carrying amount of debt for current and advance refundings resulting in defeasance of debt when the reacquisition price exceeds the net carrying amount of the defeased debt. 2. Employer's share of pension contributions to the Arizona State Retirement System and other deferred outflows related to pensions. **Use this code in proprietary funds only.**

Object Code	Description
0190	CAPITAL ASSETS ***(Use detailed codes below)*** **For discussion of capital assets, see the Property Control section. Use these codes in fiduciary and proprietary funds only.** **For financial reporting purposes, districts should maintain documentation to separately disclose right-to-use lease and subscription assets, assets held for sale, and other capital assets recorded in these codes.**
0191	**Land and Land Improvements**—Land a district owns, including legal fees, razing, filling, excavation, and other associated costs the district incurs to put the land in condition for its intended use. Further, the district should account for permanent improvements to land, such as grading and fill, in this account. Also includes land held for sale and intangible right-to-use assets acquired through leases of more than 12 months, if any, related to land.
0192	**Site Improvements**—Account that reflects the value of nonpermanent improvements to building sites, other than buildings, that add value to land. Examples of such improvements are fences, retaining walls, sidewalks, pavements, gutters, tunnels, and bridges. Also includes site improvements held for sale and intangible right-to-use assets acquired through leases of more than 12 months, if any, related to site improvements.
0193	**Accumulated Depreciation and Amortization on Land and Site Improvements**
0194	**Buildings and Building Improvements**—Account that reflects the acquisition value of permanent and relocatable district structures used to house persons and property. This account includes the value of all permanent buildings and the fixtures attached to and forming a permanent part of such buildings. This account includes all building improvements, including upgrades made to building wiring for technology. Also includes buildings held for sale and intangible right-to-use assets acquired through leases of more than 12 months, if any, related to buildings and building improvements.
0195	**Accumulated Depreciation and Amortization on Buildings and Building Improvements**
0196	**Equipment**—Account that reflects the value of machinery, vehicles, computers, software, furniture, and other equipment, including specialized electronic and athletic equipment. Also includes equipment held for sale and intangible right-to-use assets acquired through leases and subscriptions of more than 12 months, if any, related to equipment.

Object Code	Description
0197	**Accumulated Depreciation and Amortization on Equipment**
0198	**Construction in Progress**—Account that reflects the value of construction undertaken but not yet completed. When completed, districts must transfer the cost to the appropriate asset account.

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES

Object Code	Description
0200	NONPAYROLL PAYABLES ***(Use detailed codes below)***
0201	**Accounts Payable**—Amounts owed on open accounts for goods or services received, such as maintenance agreements, professional services, and short-term (12 months or less) leases.
0202	**Refundable Deposits**—Liability for amounts received as a prerequisite to providing goods or services, such as deposits students make on textbooks and lab deposits.
0203	**Bank Revolving Line of Credit Payable**—Liability for monies borrowed through a revolving line of credit as authorized by A.R.S. §11-604.01.
0205	**Tax Anticipation Notes (TANs) Payable**—Amounts owed on tax anticipation notes a district issues pursuant to A.R.S. §35-465.01.
0210	DUE TO OTHER FUNDS, GOVERNMENTAL ENTITIES, STUDENT GROUPS, AND OTHERS ***(Use detailed codes below)***
0211	**Due to Other Funds**
0212	**Due to Other Districts**
0213	**Due to County**
0214	**Due to State**
0215	**Due to Federal**

Object Code	Description
0216	**Due to Student Groups**
0217	**Due to Others**
0220	ACCRUED PAYROLL AND RELATED BENEFITS ***(Use detailed codes below)*** **Salary and fringe benefit costs incurred but not yet paid during the current accounting period.**
0221	**Salaries and Wages**—Gross amount of salaries and wages employees earned but is not due until a later date.
0222	**Social Security—OASDI (Employer's Portion)**—Amount of matching social security taxes incurred because of salaries and wages employees earned.
0223	**Medicare—Hospital Insurance (Employer's Portion)**—Amount of matching Medicare taxes incurred because of salaries and wages employees earned.
0224	**State Retirement System Contributions (Employer's Portion)**—Amount of matching State retirement contributions incurred because of salaries and wages employees earned. Include both State retirement and related long-term disability contributions.
0225	**Employee Insurance**—Amount incurred for premiums on insurance a district provides for employees (health and accident, medical, life, etc.).
0226	**Unemployment Insurance**—Amount incurred for unemployment insurance taxes.
0227	**Workers' Compensation**—Amount incurred for workers' compensation premiums.
0228	**Self-Insurance Employee Claims Payable**—Amount owed to employees for insurance claims from the Self-Insurance Fund.
0229	**Compensated Absences**—Liability for accrued vacation (or annual) leave, sick leave, paid time off (PTO), holidays, parental leave, bereavement leave, and certain types of sabbatical leave.
0230	OTHER ACCRUED ITEMS ***(Use detailed codes below)***
0231	**Interest Payable (Other than Bond Interest)**—Interest costs incurred but not yet paid during the current accounting period, including interest on tax anticipation notes.

Object Code	Description
0232	**Bond Interest Payable**—The current portion of the liability for interest on bonds issued. Includes interest expense incurred but not yet paid.
0233	**Self-Insurance Claims Payable**—Amounts owed from an Internal Service Fund (Self-Insurance) for claims and judgments payable to other than employees.
0240	PAYROLL DEDUCTIONS AND WITHHOLDINGS (EMPLOYEES) ***(Use detailed codes below)*** **Amounts deducted from employees' salaries that have not yet been paid to the respective agencies.**
0241	**Federal Income Taxes**
0242	**State Income Taxes**
0243	**Social Security—OASDI**
0244	**Medicare—Hospital Insurance**
0245	**State Retirement Contributions**—Amounts deducted from employees' salaries for State retirement contributions. Districts should record the portion representing long-term disability contributions under balance sheet object code 0246.
0246	**Long-Term Disability**—Amounts deducted from employees' salaries for long-term disability benefits for employees who participate in the Arizona State Retirement System.
0247	**Voluntary Deductions**—Amounts deducted from employees' salaries for voluntary deductions, such as annuities and dependent health insurance premiums.
0248	**Court-Ordered Assignments**—Amounts garnished from the salaries or wages of employees for child support or spousal maintenance pursuant to a court-ordered assignment of earnings. A.R.S. §§25-504 and 25-505.01
0250	**UNEARNED REVENUES**—Revenues collected before they are earned, such as grants.

Object Code	Description
0260	CONTRACTS PAYABLE ***(Use detailed codes below)***
0261	**Financed Purchase Agreements—**Amounts due on financed purchase agreements for the purchase of property.
0262	**Construction**—Amounts due on construction contracts.
0263	**Leases**—Amounts due on leases (more than 12 months). Districts should code contracts that transfer ownership of property to the district to balance sheet object code 0261. Districts should code short-term leases (12 months or less) to balance sheet object code **0201**.
0270	BONDS PAYABLE ***(Use detailed codes below)***
0271	**Current**—Liabilities for redemption of bonds that are payable within 1 year.
0272	**Long-Term**—Liabilities for redemption of bonds that are not payable within 1 year.
0280	**ARBITRAGE REBATE**—Liabilities arising from arbitrage rebates to the Internal Revenue Service from bond financing.
0290	DEFERRED INFLOWS OF RESOURCES ***(Use detailed codes below)***
0291	**Unavailable Revenues**—Revenues that are measurable but not available, such as property taxes. **Use this code in governmental funds only**.
0292	**Deferred Revenue on Refunding**—Represents the difference between the reacquisition price and the net carrying amount of debt for current and advance refundings resulting in defeasance of debt when the reacquisition price is less than the net carrying amount of the defeased debt. **Use this code in proprietary funds only.**
0293	**Pension-related Deferred Inflows of Resources**—Represents the acquisition of pension related net assets that is applicable to a future reporting period. **Use this code in proprietary funds only**.

Object Code	Description
0294	**Lease-related Deferred Inflows of Resources**—Revenues due from leases. At lease inception, the amount should be reported as the value of the lease receivable plus any payments received at or before the start of the lease term that relate to future periods.

FUND BALANCE/FUND NET POSITION

Object Code	Description
0300	**GOVERNMENTAL FUND BALANCE**
0310	*NONSPENDABLE FUND BALANCE*—Amounts that districts cannot spend because they are either not in spendable form or districts are legally or contractually required to maintain them intact. This would include items not expected to be converted to cash including inventories and prepaid amounts. It may also include the long-term amount of notes receivable and the principal of a permanent fund.
0311	*Prepaid Items*—An amount equal to the balance in the Prepaid Items asset account (**0150**).
0312	*Inventory of Supplies for Consumption*—An amount equal to the balance in the Inventory of Supplies for Consumption asset account (**0160**).
0313	*Inventory of Supplies for Sale or Rental*—An amount equal to the balance in the Inventory of Supplies for Sale or Rental asset account (**0170**).
0314	*Other Nonspendable Fund Balance*
0320	*RESTRICTED FUND BALANCE*—Amounts that are restricted to specific purposes. Districts should report fund balance as restricted when constraints placed on the use of resources are either: 1. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2. Imposed by law through constitutional provisions or enabling legislation.

Object Code	Description
0330	*COMMITTED FUND BALANCE*—Amounts that districts can only use for specific purposes pursuant to constraints imposed by the governing board's formal action. Districts cannot use these amounts for any other purpose unless the governing board removes or changes the specific purpose by taking the same kind of formal action previously used to commit these amounts. Adoption of the annual budget does not constitute a commitment as appropriations lapse at year-end without governing board action. This code should also include contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying those contractual requirements.
0340	*ASSIGNED FUND BALANCE*—Amounts that are constrained by a district's intent to be used for specific purposes, but are neither restricted nor committed. The intent should be expressed by the governing board or a body (i.e., budget or finance committee) or official to which the governing board has delegated the authority to assign amounts districts can use for specific purposes. Assigned fund balance in governmental funds, other than the general fund, includes all spendable amounts that are not restricted or committed, if that amount is positive. See discussion of the General Fund in the **Fund Accounting section**.
0350	*UNASSIGNED FUND BALANCE*—For the general fund, spendable amounts that are not restricted, committed, or assigned. The general fund is the only fund that may report a positive unassigned fund balance amount. For governmental funds other than the general fund, negative fund balances are reported here if restricted, committed, or assigned amounts exceed total spendable fund balance. See discussion of the General Fund in the **Fund Accounting section**.
0400	**PROPRIETARY FUND NET POSITION**
0410	*NET INVESTMENT IN CAPITAL ASSETS*—Capital assets less accumulated depreciation and debt directly related to capital assets.
0420	*RESTRICTED NET POSITION*—Restricted assets and deferred outflows of resources less liabilities and deferred inflows of resources related to those assets. Districts should report net position as restricted when constraints placed on the use of net position are either: 1. Externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or 2. Imposed by law through constitutional provisions or enabling legislation.

Object Code	Description
0430	*UNRESTRICTED NET POSITION*—The net amount of assets and deferred outflows of resources and liabilities and deferred inflows of resources not coded to 0410 or 0420.
0500	**FIDUCIARY FUND NET POSITION**—The net position of trust and custodial funds.

Object Code	Description
1000	REVENUE FROM LOCAL SOURCES ***(Use detailed codes below)***
1100	Taxes Levied/Assessed on Behalf of a District ***(Use detailed codes below)***
1110	**Property Taxes**—Taxes the county levies on the assessed value of real and personal property located within a district. Districts may maintain separate accounts for real property and for personal property. Districts should include penalties and interest on property taxes in revenue object code 1140.
1111	*Personal*
1115	*Real*
1140	**Penalties and Interest on Taxes**—Revenue from penalties for the payment of taxes after the due date, and the interest charged on delinquent taxes from the due date to actual payment. Districts may maintain a separate account for penalties and interest on each type of tax.
1200	**Revenue from Local Governmental Units Other Than Districts**—Revenue from the appropriations of another local governmental unit not properly coded in object 1280.
1280	**Revenue in Lieu of Taxes**—Payments a local governmental unit made to a district in lieu of taxes it would have had to pay had its property or other tax base been subject to taxation on the same basis as privately owned property. Such revenue would include payments made for privately owned property that is not subject to taxation on the same basis as other privately owned property because of action by the local governmental unit. Payments received from the Salt River Project are an example of revenue in lieu of taxes.
1300	Tuition ***(Use detailed codes below)*** **Code the portion of tuition representing transportation fees in the 1400 revenue object code range.**
1310	Tuition from Individuals ***(Use detailed codes below)***
1311	**Tuition from Individuals Excluding Summer School**
1312	**Tuition from Individuals for Summer School**

Object Code	Description
1320	**Tuition from Other Arizona Districts**
1330	**Tuition from Out-of-State Districts**
1340	**Tuition from Other Private Sources (Other than Individuals)**
1350	**Tuition from Other Government Sources Within Arizona** (such as the Arizona State Schools for the Deaf and the Blind)
1360	**Tuition from Other Government Sources Outside Arizona**
1400	Transportation Fees ***(Use detailed codes below)***
1410	**Transportation Fees from Individuals**
1420	**Transportation Fees from Other Arizona Districts**
1430	**Transportation Fees from Out-of-State Districts**
1440	**Transportation Fees from Other Private Sources (Other than Individuals)**
1450	**Transportation Fees from Other Government Sources Within Arizona**
1460	**Transportation Fees from Other Government Sources Outside Arizona**
1500	**Investment Income**—Revenue from short-term and long-term investments.
1510	*Interest on Investments*—Interest revenue on temporary or permanent investments in United States treasury and agency obligations, commercial paper, savings accounts, time certificates of deposit, or other interest-bearing investments.
1530	*Net Increase/(Decrease) in the Fair Value of Investments*—Gains/losses recognized from the sale of investments or changes in the fair value of investments.
1540	*Investment Income from Real Property*—Revenue for rental and use charges on real property held for investment purposes.
1600	**Food Service**—Revenue from sales of food to students and adults.

Object Code	Description
1610	*Daily Sales—Reimbursable Programs*—Revenue from students for the sale of breakfasts, lunches, and milk that the United States Department of Agriculture considers reimbursable. Code federal reimbursements to revenue object code **4500**.
1611	*Daily Sales—School Lunch Program*—Revenue from students for the sale of reimbursable lunches as part of the National School Lunch Program.
1612	*Daily Sales—School Breakfast Program*—Revenue from students for the sale of reimbursable breakfasts as part of the School Breakfast Program.
1613	*Daily Sales—Special Milk Program*—Revenue from students for the sale of reimbursable milk as part of the Special Milk Program.
1614	*Daily Sales—After School Care Snack (ASCS) Program*—Revenue from students for the sale of reimbursable snacks as part of the ASCS program.
1620	*Daily Sales—Nonreimbursable Programs*—Revenue from sales to adults, a la carte sales, and sales to students for nonreimbursable breakfasts, lunches, and milk.
1630	*Special Functions*—Revenue from students, adults, or organizations for the sale of food products and services at special functions. Some examples would include potlucks, PTA/PTO-sponsored functions, and athletic banquets.
1640	*Daily Sales—Summer Food Program*—Revenue from students for the sale of reimbursable items as part of summer programs.
1700	District Activities ***(Use detailed codes below)***
1750	**Revenue from Enterprise and Student Activities—**Revenue from school-sponsored and student activities including athletics, bookstore sales, concerts, and vending machines and concessions not related to the regular food service program. Also include athletic and miscellaneous fees not properly coded to object 1790.

Object Code	Description
1755	**Revenue from Fees Paid on a Student's Behalf with Grant Monies—**Revenue received from a grant fund to pay class, summer school, field trip, or other student fees on a student's behalf, in lieu of a parent or guardian payment. **Used only with expenditure object code 6886 to record the related grant fund expenditure.** Districts should evaluate all transactions using this revenue object code to determine if interfund activity should be eliminated for financial statement reporting purposes. However, charges for interfund activity are not eliminated if the prices approximate their external exchange values (i.e., similar to what a parent would pay).
1790	**Extracurricular Activities Fees Tax Credit—**Revenue (donations and fees) collected in support of extracurricular activities or character education for the donor to take as a tax credit in accordance with A.R.S. §43-1089.01.
1800	**Revenue from Community Services Activities—**Revenue from community services activities a district operates. For example, record revenue received from operating a swimming pool or civic center as a community service here. Code revenues from the long-term rental of district property, typically involving a formal lease agreement, to revenue object code 1910. Districts may establish multiple accounts within the 1800 range to differentiate various activities.
1900	Other Revenue from Local Sources ***(Use detailed codes below)***
1910	**Rentals**—Revenue from the rental of either real or personal property a district owns. Code revenues from the short-term rental of district property, such as daily use fees, to revenue object code 1800. Code rental of property held for investment purposes to revenue object code **1540.**
1920	**Contributions and Donations from Private Sources**—Revenue associated with contributions and donations private individuals or organizations make. These organizations include, but are not limited to, educational foundations, PTA/PTO organizations, and campus booster clubs. Code revenue received as donations in support of extracurricular activities for the donor to take as a tax credit in accordance with A.R.S. §43-1089.01 to revenue object code **1790**.
1930	**Gain or Loss on Sale of Capital Assets**—Amount received from the sale of capital assets in excess of the assets' book value. Use this code with proprietary and fiduciary funds only. For governmental funds, use other financing sources object code **5300**.

Object Code	Description
1940	**Government Property Lease Excise Tax (GPLET)**—Revenue received from annual excise taxes levied by cities, towns, counties, and county improvement districts on lessees of government property in accordance with A.R.S. §42-6201 et seq. Record these revenues in the Maintenance and Operation Fund.
1950	**Miscellaneous Revenues from Other Districts**—Revenue from services provided to other districts other than for tuition and transportation services. These services could include data processing, purchasing, maintenance, cleaning, and consulting. Record revenues member districts receive from Career Technical Education Districts here.
1960	**Miscellaneous Revenues from Other Local Governmental Units**—Revenue from services provided to other local governmental units. These services could include data processing, purchasing, maintenance, cleaning, cash management, and consulting.
1970	**Revenues from Other Departments in a District**—Revenues from services provided to other funds such as printing, data processing, or contributions made by a district or district employees for self- insurance or unemployment insurance. Internal Service Fund revenues from grant funds with an ADE-approved grant cost allocation plan should be recorded here. Use this code in proprietary funds only. Code revenue from private individuals, businesses, and associations for services provided to revenue object code 1990.
1980	**Refund of Prior Year's Expenditures**—Expenditures that occurred last year that are refunded this year, including voided stale-dated warrants where another warrant is not issued. If both expenditure and refund occurred in current year, districts should reduce the year's expenditures, as prescribed by GAAP.
1990	**Miscellaneous**—Revenue from local sources not provided for elsewhere. Do not code **other financing sources**, such as transfers, here. Fingerprinting Fees—Fees collected from paid employees for fingerprinting costs. Advertising Fees—Fees collected from the sale of advertising.
2000	REVENUE FROM COUNTY SOURCES ***(Use detailed codes below)***
2100	**Unrestricted**—Revenue from the county that districts can use for any legal purpose without restriction.

Object Code	Description
2110	**County School Fund**—Revenue received that represents apportionments from the County School Fund, such as Taylor Grazing. A.R.S. §15-1000
2200	**Restricted**—Revenue from the county that districts must use for a categorical or specific purpose.
2210	**Special County School Reserve Fund**—Revenue received from the Special County School Reserve Fund that districts must spend in accordance with A.R.S. §15-1002.
2900	**Revenue for/on Behalf of a District**—Commitments or payments the county made for a district's benefit, or county contributions of equipment or supplies. Separate accounts may be maintained to identify the specific nature of the revenue item.
3000	REVENUE FROM STATE SOURCES ***(Use detailed codes below)***
3100	**Unrestricted**—Revenue from State funds that districts can use for any legal purpose without restriction.
3110	**State Equalization Assistance**—Revenue received from the State under the provisions of A.R.S. §15-971(C).
3120	**Additional State Aid**—Revenue received from the State under the provisions of A.R.S. §15-972.
3130	**Certificates of Educational Convenience**—Revenue received from the State pursuant to certificates of educational convenience for pupils who are precluded by distance, lack of adequate transportation facilities, or a parent's or guardian's employment from attending a school in the district or county of the pupil's residence, or pupils who reside in unorganized territories; State rehabilitation or corrective institutions; foster homes, child care agencies, or institutions the Department of Economic Security or the Department of Health Services licenses and supervises; residential facilities the Department of Economic Security or the Department of Health Services operates or supports; or residences the Department of Juvenile Corrections supervises pursuant to the Interstate Compact on Juveniles. A.R.S. §§15-825, 15-825.01, and 15-825.02

Object Code	Description
3140	**Institutional Vouchers**—Revenue received from the State pursuant to institutional vouchers for special education students who reside in the Arizona State School for the Deaf and the Blind; Arizona Training Program Facilities, as provided in A.R.S. §36-551; or the Arizona State Hospital. A.R.S. §15-1204
3150	**State Impact Assistance**—Revenue received from the State for pupils whose parents or legal guardians are employed by and live at the State Hospital, the Arizona State School for the Deaf and the Blind, Intellectual Disability Centers, Port of Entry Inspection Stations, and institutions and facilities the Department of Corrections maintains. A.R.S. §15-976
3200	**Restricted**—Revenue from the State that districts must use for a categorical or specific purpose, such as Classroom Site, Instructional Improvement, and ADOA's School Facilities Division monies.
3900	**Revenue for/on Behalf of a District**—Commitments or payments the State makes for a district's benefit, or State contributions of equipment or supplies. Districts must maintain separate accounts to identify the specific nature of the revenue item.
4000	REVENUE FROM FEDERAL SOURCES ***(Use detailed codes below)***
4100	**Unrestricted Revenue Received Directly from the Federal Government—** Revenues received directly from the federal government that districts can use for any legal purpose without restriction.
4200	**Unrestricted Revenue Received from the Federal Government through the State—**Revenues received from the federal government through the State that districts can use for any legal purpose without restriction, such as Medicaid Reimbursement.
4300	**Restricted Revenue Received Directly from the Federal Government—** Revenue received directly from the federal government that districts must use for a categorical or specific purpose. If such money is not completely used, it usually is returned to the governmental unit, such as ESEA Title VII—Indian Education, Federal Impact Aid (Construction).

Object Code	Description
4500	**Restricted Revenue Received from the Federal Government through the State—**Revenues received from the federal government through the State that districts must use for a categorical or specific purpose, including most federal grants districts receive through ADE, such as IDEA, Title I, and federal food service reimbursements.
4700	**Revenue Received from the Federal Government through Other Intermediate Agencies—**Revenues received from the federal government through other intermediate agencies, such as a county or tribal government, including National Forest Fees and Johnson-O'Malley assistance.
4800	**Revenue in Lieu of Taxes—**Commitments or payments the federal government makes out of general revenues in lieu of taxes it would have had to pay had a district subjected its property or other tax base to taxation on the same basis as privately owned property or other tax base. Such revenue would include payment made for privately owned property that is not subject to taxation on the same basis as other privately owned property due to action by the federal government, such as impact aid.
4900	**Revenue for/on Behalf of a District—**Commitments or payments the federal government makes for a district's benefit, or federal contributions of equipment or supplies. Such revenues include E-rate monies the Schools and Libraries Division of the Universal Service Administrative Company (USAC) pay directly to vendors and food the federal government donates. Districts may maintain separate accounts to identify the specific nature of the revenue item.

Object Code	Description
5000	OTHER FINANCING SOURCES AND OTHER ITEMS ***(Use detailed codes below)***
5100	Issuance of Bonds—Bonds must be calculated and issued in accordance with Arizona Revised Statutes and the Arizona Constitution. A.R.S. §15-1021 ***(Use detailed codes below)***
5110	**Bond Principal**—Face amount of bonds sold. (Bond Issuance costs are not netted here but should be coded to expenditure object code **6860**.)
5120	**Premium or Discount on the Issuance of Bonds**—Portion of the sale price of bonds in excess of or below their par value.
5200	**Fund Transfers-In**—Used to classify operating transfers from other funds of a district. Districts may establish multiple accounts within the 5200 range to identify transfers from specific funds. Districts should use other financing uses object code **6910—Indirect Cost Transfers-Out** or **6930—Fund Transfers-Out** to record the corresponding transfer-out as applicable. See list of **authorized transfers**.
5300	**Proceeds From the Disposal of Real or Personal Property**—Proceeds from the disposal of district property or compensation for the loss of real or personal property. The disposal of an asset that is either unusual in nature or infrequent in occurrence should be coded to object code **5700**. Districts should code any gain or loss on the disposal of property for proprietary or fiduciary funds to revenue object code **1930**.
5400	**Capital Contributions**—Capital assets acquired as the result of a donation or bequest of an individual, estate, other government, a corporation, or an affiliate organization.
5500	**Lease Proceeds**—Proceeds from leases. Record the present value of expected lease payments.
5600	**Other Long-Term Debt Proceeds**—Proceeds from other long-term debt instruments not captured in the preceding codes, including financed purchase agreements.

Object Code	Description
5700	**Unusual or Infrequent Items**—Transactions or events that are unusual in nature or infrequent in occurrence. **For financial reporting purposes, districts should maintain documentation to separately report and disclose inflows related to each unusual or infrequent item, including note disclosures of the related program, function, or identifiable activity the unusual or infrequent item is related to, if applicable.** • *Unusual nature*—The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the district, taking into account the environment in which the district operates. • *Infrequency of occurrence*—The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the district operates. For some districts, these include the sale of certain general governmental capital assets; significant forgiveness of debt by a financial institution; insurance proceeds to cover significant costs related to a natural disaster caused by fire, flood, tornado, hurricane, or hail storm; insurance proceeds to cover costs related to an environmental disaster; or a private citizen's large bequest to a small district.

Code	Description
100	**REGULAR EDUCATION**—Activities that provide students in kindergarten through grade 12 with learning experiences to prepare them for further education or training and for responsibilities as citizens, family members, and workers. Districts should distinguish regular programs from special education programs that focus on adapting curriculum or instruction to accommodate a specific disability, from vocational/technical programs that focus on career skills, and from alternative education programs that focus on the educational needs of students at risk of failing or dropping out of school because of academic, behavioral, or situational factors. Districts should code expenditures not specifically assignable to other programs here, such as district office and food service expenditures.
200	**SPECIAL EDUCATION**—Special Programs include activities for elementary and secondary students (prekindergarten through grade 12) receiving services outside the realm of "regular programs" in accordance with disability classifications defined in A.R.S. §15-761, and for gifted, remedial, English immersion, vocational and technical, career education and CTED programs. Districts should code CTED program expenditures in the appropriate code in the program 300 range. Districts should code prekindergarten programs not serving those with disability classifications to program code 900. ***(See additional bold codes below)***
201	*Autism*
202	*Emotional Disability*
203	*Hearing Impairment*
204	*Other Health Impairments*
205	*Specific Learning Disability*
206	*Mild, Moderate, or Severe Intellectual Disability*
207	*Multiple Disabilities*
208	*Multiple Disabilities with Severe Sensory Impairment*
209	*Orthopedic Impairment*
210	*Developmental Delay*
211	*Preschool Severe Delay*

Code	Description		
213	*Speech/Language Impairment*		
214	*Traumatic Brain Injury*		
215	*Visual Impairment*		
240	**Gifted Education**		
250	**Remedial Education**		
260	**English Language Learners Incremental Costs (A.R.S. §15-756 et seq)**		
265	**English Language Learners Compensatory Instruction (A.R.S. §15-756 et seq)**		
270	**Vocational and Technical Education (Do not include CTED costs here.)**		
280	**Career Education**		
300	**CAREER TECHNICAL EDUCATION (CTED) *(See additional bold codes below)***		
301	**Accounting**	CIP #	**52.0301.00**
302	**Legal Assistant**	CIP #	**22.0302.00**
303	**Air Transportation**	CIP #	**36.0202.00**
304	**Aircraft Mechanics**	CIP #	**47.0608.00**
305	**Unassigned – do not use**		
306	**Digital Animation**	CIP #	**10.0304.00**
307	**Architectural Drafting**	CIP #	**15.1303.00**
309	**Automation and Robotics**	CIP #	**14.4201.00**
310	**Automotive Collision Repair**	CIP #	**47.0603.00**
311	**Automotive Technologies**	CIP #	**47.0604.00**
312	**Bioscience**	CIP #	**41.0100.00**
313	**Business Management**	CIP #	**52.0201.00**

Districts should use Program 300 to code expenditures made for multiple CTED programs that are not directly assignable to Programs 301-399.

Use detailed Programs 300-399 in all funds, not just Fund 596.

Code	Description		
314	**Business Operations**	CIP #	**52.0408.00**
315	**Cabinetmaking**	CIP #	**48.0703.00**
316	**Carpentry**	CIP #	**46.0201.00**
317	**Technology Devices Maintenance**	CIP #	**15.1202.00**
318	**Construction Technologies**	CIP #	**46.0415.00**
319	**Cosmetology and Related Services**	CIP #	**12.0400.00**
320	**Culinary Arts**	CIP #	**12.0500.00**
321	**Dental Assisting**	CIP #	**51.0600.00**
322	**Diesel Engine Repair**	CIP #	**47.0613.00**
323	**Digital Photography**	CIP #	**50.0605.00**
324	**Unassigned – do not use**		
325	**Early Childhood Education**	CIP #	**13.1210.00**
326	**Education Professions**	CIP #	**13.1200.00**
327	**Electronic Technologies**	CIP #	**14.1001.00**
328	**Unassigned – do not use**		
329	**Emergency Medical Services**	CIP #	**51.0904.00**
330	**Engineering**	CIP #	**15.0000.00**
332	**Energy Systems**	CIP #	**47.0701.00**
333	**Fashion Design and Operations**	CIP #	**50.0407.00**
334	**Film and TV Production**	CIP #	**50.0602.00**
335	**Finance**	CIP #	**52.0801.00**
336	**Fire Service**	CIP #	**43.0202.00**

Code	Description		
337	**Graphic Design**	CIP #	**50.0409.00**
338	**Medical Records Technologies**	CIP #	**51.0707.00**
339	**Heating, Ventilation and Air Conditioning**	CIP #	**47.0201.00**
340	**Heavy Equipment Operations**	CIP #	**49.0202.00**
341	**Heavy Industrial Maintenance**	CIP #	**47.0300.00**
342	**Hospitality Management**	CIP #	**52.0900.00**
343	**Unassigned - do not use**		
344	**Interior Design**	CIP #	**50.0408.00**
345	**Digital Communication**	CIP #	**09.0702.00**
346	**Laboratory Assisting**	CIP #	**51.0802.00**
347	**Law and Public Safety**	CIP #	**43.0100.00**
348	**Mechanical Drafting**	CIP #	**15.1306.00**
349	**Medical Assisting Services**	CIP #	**51.0801.00**
350	**Unassigned - do not use**		
351	**Mental and Social Health Technician**	CIP #	**51.1502.00**
352	**Music and Audio Production**	CIP #	**15.0307.00**
353	**Network Security**	CIP #	**11.1999.00**
354	**Nursing Services**	CIP #	**51.3902.00**
355	**Pharmacy Support Services**	CIP #	**51.0805.00**
356	**Plumbing**	CIP #	**46.0503.00**
357	**Precision Machining**	CIP #	**48.0510.00**
358	**Marketing**	CIP #	**52.1801.00**

Code	Description		
359	**Electrical and Power Transmission Installation**	CIP #	**46.0301.00**
360	**Unassigned - do not use**		
361	**Software and App Design**	CIP #	**11.0202.00**
362	**Sports Medicine and Rehabilitation**	CIP #	**51.0913.00**
363	**Unassigned - do not use**		
364	**Stagecraft**	CIP #	**50.0599.00**
365	**Therapeutic Massage**	CIP #	**51.3501.00**
366	**Veterinary Assisting**	CIP #	**01.8301.00**
367	**Unassigned - do not use**		
368	**Welding Technologies**	CIP #	**48.0508.00**
369	**JROTC Airforce/Spaceforce**	CIP #	**28.0101.00**
370	**JROTC Army**	CIP #	**28.0301.00**
371	**JROTC Navy/Marine**	CIP #	**28.0401.00**
372	**Unassigned - do not use**		
373	**Home Health Aide**	CIP #	**51.2602.00**
374	**Unassigned – do not use**		
375	**Unassigned - do not use**		
376	**AgriScience**	CIP #	**01.0000.00**
380-399	**Local Occupational Need Programs**—Activities related to ADE approved CTED programs not included in the statewide approved programs (program codes 301-379). Each CTED should assign a specific program code in this range for each approved local CTED program to identify costs by CIP #. The CTED and its members should use the same program number.		

Code	Description
400	**PUPIL TRANSPORTATION**—Expenditures for transporting students to and from school and school activities (e.g., field trips, competitions, conferences, athletics, etc.). ***(See additional bold codes below)***
410	*Pupil Transportation Regular Education*
420	*Pupil Transportation Special Education*
430	**English Language Learners Incremental Costs**
435	**English Language Learners Compensatory**
450	**CTED Central**
460	**CTED Satellite**
470	**Vocational and Technical Education (Do not include CTED costs here.)**
500	PROGRAMS REQUIRING SEPARATE BUDGETS ***(Use detailed codes below)***
510	Desegregation ***(Use detailed codes below)*** **Expenditures incurred solely as a result of compliance with a court order of desegregation or administrative agreement with the U.S. Department of Education Office for Civil Rights as provided in A.R.S. §15-910.**
511	**Desegregation Regular Education**
512	**Desegregation Special Education**
513	**Desegregation Pupil Transportation**
514	**Desegregation English Language Learners Incremental Costs**
515	**Desegregation English Language Learners Compensatory Instruction**
530	**Dropout Prevention Programs**—Accounts for expenditures for dropout prevention programs the State Board of Education approves.

Code	Description
540	**Joint Career and Technical Education and Vocational Education Center**—Accounts for vocational expenditures that are specifically exempt in whole or in part from the revenue control limit for a period of not more than 3 years, beginning the first year that the career and technical education and vocational education center is operating and serving students as provided in A.R.S. §15-910.01.
550	**K-3 Reading Program**—Accounts for expenditures from the amount the K-3 Reading support level weight generated for districts to use only on instructional purposes intended to improve reading proficiency for pupils in kindergarten and grades 1, 2, and 3 with particular emphasis on pupils in kindergarten and grades 1 and 2. A.R.S. §15-211
600	OTHER INSTRUCTIONAL PROGRAMS ***(Use detailed codes below)***
610	**School-Sponsored Cocurricular Activities**—School-sponsored activities, under the guidance and supervision of district staff, designed to provide students such experiences as motivation, enjoyment, and improvement of skills. Cocurricular activities normally supplement the regular instructional program and include such activities as band, chorus, choir, speech, and debate. Districts should code athletics to program 620.
620	**School-Sponsored Athletics**—School-sponsored activities, under the guidance and supervision of district staff, that provide opportunities for students to pursue various aspects of physical education. Athletics normally involve competition between schools and frequently involve offsetting gate receipts or fees.
630	**Other**—Activities that provide students with learning experiences not included in the other program 600 codes.
700	**ADULT/CONTINUING EDUCATION PROGRAMS**—Activities that develop knowledge and skills to meet immediate and long-range educational objectives of adults who, having completed or interrupted formal schooling, have accepted adult roles and responsibilities. Programs include activities to foster the development of fundamental tools of learning, prepare students for a postsecondary career, prepare students for postsecondary education programs, upgrade occupational competence, prepare students for a new or different career, develop skills and appreciation for special interests, or enrich the aesthetic qualities of life. Adult basic education programs are included in this category. Additionally, associate degrees offered by a CTED in accordance with A.R.S. §15-398 should be included here.

Code	Description
800	**COMMUNITY COLLEGE EDUCATION PROGRAMS**—Activities for students attending an institution of higher education that usually offers the first 2 years of college instruction. If a district has the responsibility of providing this program, districts should code all costs of the program here.
900	**COMMUNITY SERVICES PROGRAMS**—Activities that are not directly related to the provision of educational services in a district. These include services such as community recreation programs, civic activities, public libraries, programs of custody and care of children, prekindergarten programs that are not appropriately coded to program code 200, and community welfare activities a district provides for the community as a whole or some segment of the community.

Function Code	Description	Program Guidance
1000	**INSTRUCTION**—Instruction includes the activities dealing directly with the interaction between teachers and students. Districts may provide instruction for students in a school classroom, in another location such as a home or hospital, and in other learning situations such as those involving cocurricular activities and school-sponsored athletics. Districts may also provide instruction through some other approved medium, such as television, radio, computer, Internet, multimedia, telephone, and correspondence, that is delivered inside or outside the classroom or in other teacher-student settings. Include salaries and benefits of certified teachers, classroom furniture, and technology used by students in the classroom or that has a student instruction focus. As an alternative to using a separate optional element in the account string for course codes, districts may establish course codes under this function. ***(See additional bold code below)***	
1900	**Other Instructional Staff**—Include salaries and benefits of noncertified, instructional personnel (e.g., aides, noncertified athletic coaches, tutors, etc.).	
2000	SUPPORT SERVICES ***(Use detailed codes below)***	
2100	**Support Services**—Students—Activities designed to assess and improve the students' well-being and to supplement the teaching process. ***(See additional bold code 2170 below)***	
2110	*Attendance and Social Work Services***—**Activities designed to improve student attendance at school and that attempt to prevent or solve student problems involving the home, school, and community. This function includes attendance services, social work services, student accounting services, and student attendance software. Registration activities for adult education programs are also included here.	

Function Code	Description	Program Guidance
2120	*Guidance Services*—Activities involving counseling with students and parents, consulting with other staff members on learning problems, evaluating the abilities of students, assisting students as they make their own educational and career plans and choices, assisting students in personal and social development, providing referral assistance, and working with other staff members in planning and conducting guidance programs for students. This function also includes supervision, appraisal, record maintenance, and placement services.	
2130	*Health Services*—Health services that are not direct instruction. Included are activities that provide students with appropriate medical, dental, and nursing services.	
2140	*Psychological Services*—Activities concerned with administering psychological tests and interpreting the results; gathering and interpreting information about student behavior; working with other staff members in planning school programs to meet the students' special needs as psychological tests and behavioral evaluation indicate; and planning and managing a program of psychological services, including psychological counseling for students, staff, and parents. This function also includes the supervision of psychological services and psychotherapy services.	
2150	*Speech Pathology and Audiology Services*—Activities that identify, assess, and treat children with speech, hearing, and language impairments.	Usually **200**
2160	*Occupational/Physical Therapy—Related Services*—Activities that assess, diagnose, or treat students for all conditions requiring the services of an occupational or physical therapist.	Usually **200**
2170	**Heads of Components Support Services—Students**—Activities associated with the overall administration of Student Support Services below the executive level. See description of heads of components in the **introduction**. **Used in the indirect cost calculation.**	

Function Code	Description	Program Guidance
2190	*Other Support Services—Students*—Other support services to students not coded elsewhere in the function 2100 range. Districts should code students' food and hotel costs associated with student travel here.	
2200	**Support Services—Instruction**—Activities associated with assisting the instructional staff with the content and process of providing learning experiences for students. This function also includes curriculum directors, special education directors, or others who supervise staff performing these functions. ***(See additional bold codes below)***	
2210	**Improvement of Instruction**—Activities primarily for assisting instructional staff in planning, developing, and evaluating the process of providing learning experiences for students. These activities include curriculum development, developing instruction techniques, child development and understanding, and staff training.	
2212	*Instruction and Curriculum Development*—Activities that aid teachers in developing the curriculum, preparing and using special curriculum materials, and understanding and appreciating the various techniques that stimulate and motivate students.	
2213	*Instructional Staff Training*—Activities associated with the professional development and training of instructional personnel. These include such activities as in-service training (including mentor teachers), workshops, conferences, demonstrations, courses for college credit (tuition reimbursement), and other activities related to instructional personnel's ongoing growth and development. Districts should also code technology training for instructional staff here. Districts should capture the incremental costs associated with providing substitute teachers in the classroom (while regular teachers attend training) in this function code. Districts should code all costs here regardless of whether training services are provided internally or purchased from vendors.	

Function Code	Description	Program Guidance
2220	**Library/Media Services**—Activities concerned with directing, managing, and supervising educational media services, as well as activities such as selecting, acquiring, preparing, cataloging, and circulating books and other printed materials; planning for the use of the library by students, teachers, and other members of the instructional staff; and guiding individuals in their use of library books, reference guides and materials, catalog materials, special collections, and other materials, whether maintained separately or as a part of an instructional materials center. These activities include developing and acquiring library materials and operating library facilities. Districts should code textbooks to function **1000**.	
2230	*Instruction—Related Technology*—Encompasses all technology activities and services for the purpose of supporting instruction. These activities include expenditures for internal technology support as well as support districts purchase from external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related costs such as virus and filtration software that relate to the support of instructional activities. Districts should also code activities concerned with supporting and maintaining computer centers (outside the classroom) that are established to support the instructional environment here. These centers may be located in the library or in other locations, but are not primarily dedicated to student-teacher instruction activities. (Districts should code computer centers that are primarily dedicated to instruction and technology used by students in the classroom or that have a student instruction focus to function **1000**.) Districts should also code professional development costs for instruction-focused technology personnel here. (Districts should code technology training for instructional staff to function **2213**.)	

Function Code	Description	Program Guidance
2240	**Heads of Components Support Services—Instruction**—Activities associated with the overall administration of Instructional Support Services below the executive level. See description of heads of components in the **introduction**. **Used in the indirect cost calculation.**	
2260	*Academic Student Assessment*—Services rendered for the academic assessment of the student.	
2290	*Other Support Services—Instruction*—Other support to the instructional staff not coded elsewhere in the function 2200 range.	
2300	**Support Services—General Administration**—Activities associated with establishing and administering policy for operation of a district. ***(See additional bold codes below)***	
2310	*Governing Board*—Activities of the elected body that has been created according to State law and vested with responsibilities for educational activities in a given administrative unit. This function includes board secretary/clerk services, board treasurer services, staff relations and negotiations services, legal services, and external audit services. Districts should code election services to function **2340**.	
2320	**Executive Administration**—Activities associated with overall general administration or executive responsibility for the school district. This function includes the office of the superintendent and related office support staff (e.g., administrative assistant, secretary), community relations, and State and federal relations services. Activities of administrators with key decision-making authority and their related office support staff are also included here regardless of the specific job title used. Such administrators are often referred to as associate, assistant, or deputy superintendents, but may not be limited to such designations. Districts may code activities of directing operations below the level of such administrators to another support services function if they fit within that function. **Used in the indirect cost calculation.**	

Function Code	Description	Program Guidance
2330	**Lobbying**—Activities related to the attempt to influence the passage or defeat of any legislation by communicating with any member or employee of the Legislature.	
2340	**Election Services**—Activities related to district elections including elections of governing board members and bond and override elections. **Used in the indirect cost calculation.**	
2350	**Retiree Health**—Payments made to provide retiree health benefits. If a retired employee returns to district employment only classify health related costs in the detailed function below if the costs result from an agreement made when the employee retired. Classify health related costs for employees in the same function as their other compensation and benefits. **Used in the indirect cost calculation.**	
2351	**Executive Administration and Heads of Components**—Retiree health payments for retired executive administrators or heads of components. See description of executive administration and heads of components in the **introduction**. **Used in the indirect cost calculation.**	
2400	**Support Services—School Administration**—Activities concerned with overall administrative responsibility for a school. ***(See additional bold code below)***	
2410	**Office of the Principal**—Activities concerned with directing and managing the operation of a school. This function includes the activities the principal, assistant principals, and other assistants perform while supervising all school operations, evaluating staff members, assigning duties to staff members, maintaining the school records, and coordinating school instructional activities with those of a district. Districts should use this function to report all heads of components within Support Services—School Administration for the indirect cost calculation. See description of heads of components in the **introduction**.	

Function Code	Description	Program Guidance
2490	*Other Support Services—School Administration*—Other school administration services. This function includes graduation expenses and department chairs.	
2500	**Central Services**—Activities that support other administrative and instructional functions, including fiscal services, human resources, planning, and administrative information technology. ***(See additional bold codes below)***	
2510	*Fiscal Services*—Activities concerned with the fiscal operations of a district. This function includes budgeting, receiving and disbursing monies, financial and property accounting, payroll, inventory control, internal auditing, and investments and funds management, as well as supervision of fiscal services.	
2520	*Purchasing, Warehousing, and Distributing Services*—Activities concerned with purchasing, receiving, storing, and distributing supplies, furniture, equipment, and materials used in schools or school system operations.	
2530	**Heads of Components Support Services—Central—**Activities associated with the overall administration of Central Support Services below the executive level. See definition of heads of components in the **introduction**. **Used in the indirect cost calculation.**	
2540	*Printing, Publishing, and Duplicating Services***—**The activities of printing and publishing administrative publications such as annual reports, school directories, and manuals. Activities also include centralized services for duplicating school materials and instruments such as school bulletins, newsletters, and notices.	

Function Code	Description	Program Guidance
2550	**Planning, Research, Development, and Evaluation Services**—Activities associated with conducting and managing system-wide programs of planning, research, development, and evaluation for a school system. Planning Services—Activities concerned with selecting or identifying the overall, long-range goals and priorities of the organization or program. They also involve formulating various courses of action needed to achieve these goals. This is done by identifying needs and the relative costs and benefits of each course of action. Research Services—Activities concerned with the systematic study and investigation of the various aspects of education, undertaken to establish facts and principles. Development Services—Activities in the deliberate evolving process of improving educational programs. Evaluation Services—Activities concerned with ascertaining or judging the value or amount of an action or an outcome. This is done through careful appraisal of previously specified data in light of the particular situation and the goals previously established. **Used in the indirect cost calculation.**	
2560	**Public Information Services**—Activities concerned with writing, editing, and otherwise preparing educational and administrative information for dissemination to students, staff, managers, and the general public through direct mailing, the various news media, email, the Internet, websites, and personal contact. The information services function code includes related supervision and internal and public information services. Districts should code technology that supports activities classified in this code to function **2580**. **Used in the indirect cost calculation.**	

Function Code	Description	Program Guidance
2570	*Personnel Services*—Activities concerned with maintaining personnel for the school system. It includes such activities as recruitment and placement, noninstructional personnel training, staff transfers, health services, and staff accounting. Noninstructional Personnel Training—Activities associated with the professional development and training of noninstructional personnel. These include such activities as in-service training, seminars and conferences, continuing professional education, courses for college credit (tuition reimbursement), and other activities related to the ongoing growth and development of noninstructional personnel. The incremental costs associated with providing temporary employees to perform job duties while regular employees attend training should be captured in this function code. Districts should code all training costs here regardless of whether training services are provided internally or purchased from vendors.	
2580	*Administrative Technology Services*—Activities concerned with supporting a district's information technology systems, including supporting administrative networks, maintaining administrative information systems, and processing data for administrative and managerial purposes. These activities include expenditures for internal technology support, as well as support districts purchase from external vendors using operating funds. These activities include costs associated with the administration and supervision of technology personnel, systems planning and analysis, systems application development, systems operations, network support services, hardware maintenance and support services, and other technology-related administrative costs such as virus and filtration software.	
2590	*Other Central Services*—Other central support services not coded elsewhere in the function 2500 range.	
2600	**Operation and Maintenance of Plant—**Activities concerned with keeping the physical plant open, comfortable, and safe for use, and keeping the grounds, buildings, and equipment in effective working condition and state of repair. These include the activities of maintaining safety in buildings, on the grounds, and in the vicinity of schools. ***(See additional bold code 2680 below)***	

Function Code	Description	Program Guidance
2610	*Operation of Buildings*—Activities concerned with keeping the physical plant clean and ready for daily use. They include operating lighting and HVAC systems and doing minor repairs. Also included are the costs of building rental and property insurance.	
2620	*Maintenance of Buildings*—Activities associated with keeping buildings at an acceptable level of efficiency through repairs and preventive maintenance.	
2630	*Care and Upkeep of Grounds*—Activities involved in maintaining the land and improvements (but not the buildings). These include snow removal, landscaping, and grounds maintenance.	
2640	*Care and Upkeep of Equipment*—Activities involved in maintaining equipment a district owns or uses. They include such activities as servicing and repairing furniture, machines, and movable equipment.	
2650	*Vehicle Operation and Maintenance (Other than Student Transportation Vehicles)*—Activities involved in maintaining general purpose vehicles such as trucks, tractors, graders, and staff vehicles. These include such activities as repairing vehicles; replacing vehicle parts; and cleaning, painting, greasing, fueling, and inspecting vehicles for safety (i.e., preventive maintenance).	
2660	*Security*—Activities concerned with maintaining a secure environment for students and staff, whether they are in transit to or from school, at a campus or administrative facility, or participating in school-sponsored events. These include costs associated with security plan development and implementation; installation of security monitoring devices, such as cameras and metal detectors; security personnel, such as campus police and security guards; purchase of security vehicles and communication equipment; and related costs.	

Function Code	Description	Program Guidance
2670	*Safety*—Activities concerned with maintaining a safe environment for students and staff, whether they are in transit to or from school, at a campus or administrative facility, or participating in school-sponsored events. These include costs associated with installing and monitoring school fire alarm systems and providing school crossing guards, as well as other costs incurred in an effort to ensure the basic safety of students and staff.	
2680	**Heads of Components Operation and Maintenance of Plant—** Activities associated with the overall administration of Plant Operations and Maintenance below the executive level. See description of heads of components in the **introduction**. **Used in the indirect cost calculation.**	
2690	*Other Operation and Maintenance of Plant*—Operation and maintenance of plant services that are not coded elsewhere in the function 2600 range.	
2700	**Student Transportation**—Activities concerned with conveying students to and from school, as provided by state and federal law. This includes trips between home and school, and trips to school activities. ***(See additional bold code below)***	Only **400** **513**
2710	*Vehicle Operation*—Activities involved in operating vehicles for student transportation, from the time the vehicles leave the point of storage until they return to the point of storage. These include driving buses or other student transportation vehicles.	Only **400** **513**
2720	*Monitoring Services*—Activities concerned with supervising students in the process of being transported between home and school, and between school and school activities. Such supervision can occur while students are in transit and while they are being loaded and unloaded, and it includes directing traffic at the loading stations.	Only **400** **513**
2730	*Vehicle Servicing and Maintenance*—Activities involved in maintaining student transportation vehicles. It includes repairing and replacing vehicle parts, and cleaning, painting, fueling, and inspecting vehicles for safety.	Only **400** **513**

Function Code	Description	Program Guidance
2740	**Heads of Components Student Transportation**—Activities associated with the overall administration of Student Transportation below the executive level. See description of heads of components in the **introduction**. **Used in the indirect cost calculation**.	Only **400** **513**
2790	*Other Student Transportation*—Student transportation services that are not coded elsewhere in the function 2700 range.	Only **400** **513**
2900	**Other Support Services**—All other support services not coded elsewhere in the function 2000 range and not properly coded to function 2910.	
2910	**Heads of Components Support Services—Other**—Activities associated with the overall administration of Other Support Services below the executive level. See definition of heads of components in the **introduction**. **Used in the indirect cost calculation.**	
3000	OPERATION OF NONINSTRUCTIONAL SERVICES ***(Use detailed codes below)***	
3100	**Food Service Operations**—Activities concerned with providing food to students and staff in a school or district not properly coded to function 3110. This function includes preparing and serving regular and incidental meals, lunches, or snacks in connection with school activities and food delivery.	
3110	**Heads of Components Food Service Operations**—Activities associated with the overall administration of Food Service Operations below the executive level. See definition of heads of components in the **introduction**. **Used in the indirect cost calculation.**	

Function Code	Description	Program Guidance
3200	**Enterprise Operations**—Activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is to finance or recover the costs primarily through user charges not properly coded to function 3210. Districts should code food service operations to function 3100.	
3210	**Heads of Components Enterprise Operations**—Activities associated with the overall administration of Enterprise Operations below the executive level. See definition of heads of components in the **introduction**. **Used in the indirect cost calculation.**	
3300	**Community Services Operations**—Activities concerned with providing community services to students, staff, or other community participants not properly coded to function 3310. Examples of this function would be offering parental training or operating a community swimming pool, a recreation program for the elderly, or a childcare center for working parents. Districts should code activities related to counseling students and parents as described in function **2120** there.	Only **900**
3310	**Heads of Components Community Services Operations**—Activities associated with the overall administration of Community Services Operations below the executive level. See definition of heads of components in the **introduction**. **Used in the indirect cost calculation**.	Only **900**
3400	**Bookstore Operations**—Activities concerned with bookstore operations not properly coded to function 3410.	
3410	**Heads of Components Bookstore Operations**—Activities associated with the overall administration of Bookstore Operations below the executive level. See definition of heads of components in the **introduction**. **Used in the indirect cost calculation.**	

Function Code	Description	Program Guidance
4000	**FACILITIES ACQUISITION AND CONSTRUCTION**—Activities concerned with acquiring land and buildings, remodeling buildings, constructing buildings and additions to buildings, initially installing or extending service systems and other built-in equipment, and improving sites. ***(See additional bold code below)***	
4100	*Land Acquisition*—Activities concerned with initially acquiring and improving land.	
4200	*Land Improvement*—Activities concerned with making permanent improvements to land, such as grading, fill, and environmental remediation.	
4300	*Architecture and Engineering*—The activities of architects and engineers related to acquiring and improving sites and improving buildings. Charges are made to this function only for those preliminary activities that may or may not result in additions to a district's property. Otherwise, code these services to function 4100, 4200, 4500, 4600, or 4700, as appropriate.	
4400	*Educational Specifications Development*—Activities concerned with preparing and interpreting descriptions of specific space requirements to be accommodated in a building. The architects and engineers interpret these specifications in the early stages of blueprint development.	
4500	*Building Acquisition and Construction*—Activities concerned with buying or constructing buildings.	
4600	*Site Improvement*—Activities concerned with making nonpermanent improvements or enhancements to building sites. These improvements include fencing, walkways, tunnels, landscaping, and playground and shade structures.	
4700	*Building Improvement*—Activities concerned with building additions, reconstruction, remodeling, and with initially installing or extending service systems and other built-in equipment.	

Function Code	Description	Program Guidance
4800	**Heads of Components Facilities Acquisition and Construction**—Activities associated with the overall administration of Facilities Acquisition and Construction below the executive level. See description of heads of components in the **introduction**. **Used in the indirect cost calculation**.	
4900	*Other Facilities Acquisition and Construction*—Facilities acquisition and construction activities that are not coded elsewhere in the function 4000 range.	
5000	**DEBT SERVICE**—Activities related to servicing long-term debt and other long-term obligations including payments of both principal and interest. Districts should use this function to account for bond interest payments; retirement of bonded debt including current and advance refundings; financed purchase agreements; leases and subscription-based information technology arrangements (software subscriptions) other than short-term; and other long-term notes. Districts should code interest on short-term obligations that are repayable within 1 year, such as tax anticipation notes and lines of credit, to function **2510**. Districts should code short-term leases and software subscriptions to the appropriate function the underlying lease or subscription asset serves.	
6000	**OTHER FINANCING USES**—A number of outlays are not properly classified as expenditures, but still require budgetary or accounting control. These include certain transfers of monies from one fund to another, indirect costs, and payments to bond escrow agents.	

Object Code	Description	Function Guidance
6100	PERSONAL SERVICES—SALARIES ***(Use detailed codes below)***	
	Certified Salaries—Amounts paid to permanent or temporary district employees certified by the Arizona Department of Education.	
6105-6109	**Substitute Teachers—**Amounts paid to short- or long-term substitutes.	Only **1000** *2213* **3300**
6110-6114	**Classroom Teacher Base Salaries**—Amounts paid to classroom teachers for their primary teaching duties, including Classroom Site Fund base salary payments.	Only **1000** **3300**
6115-6119	**Classroom Teacher Performance Pay**—Amounts paid to classroom teachers based on the teacher's performance ratings or defined goal's achievement, including Classroom Site Fund performance payments.	Only **1000** **3300**
6120-6129	**Classroom Teacher Payments Not Related to Additional Duties**—Amounts paid to classroom teachers, in addition to their base salary payments, that do **not** require the employee to perform additional duties (e.g., retention, hard-to-fill positions, class size, specific certification endorsements, and signing or other incentive stipends).	Only **1000** **3300**
6130-6139	**Classroom Teacher Payments Related to Additional Duties**—Amounts paid to classroom teachers, in addition to their base salary payments, that require additional duties teachers must perform (e.g., department/chair lead, tutoring, summer school, advisors, coaches, and teaching additional periods or classes beyond base contract requirements, such as teaching a class in place of the normal teacher preparation period).	
6140-6149	**Other Certified Staff**—Amounts paid to certified staff other than classroom teachers, such as administrators, counselors, and other certified staff. Districts can use functions to differentiate between positions.	

Use function code 3300 for community school

Object Code	Description	Function Guidance
6150	**Classified Salaries—**Amounts paid to permanent or temporary employees not certified by the Arizona Department of Education. Examples are business managers, clerks, secretaries, custodians, social workers, nurses, bus drivers, food service workers, and crossing guards.	
6200	PERSONAL SERVICES—EMPLOYEE BENEFITS ***(Use detailed codes below)***	
6210	**Employee Insurance—**Amounts paid for the employer's share of any insurance plans, such as life, health, dental, and accident insurance.	
6220	**Social Security Taxes—**Amounts paid for the employer's share of social security. **Although expenditure object codes 6221 and 6222 are optional, districts must maintain adequate records to separately identify Social Security and Medicare.**	
6221	*Social Security—OASDI*	
6222	*Medicare—Hospital Insurance*	
6230	**State Retirement System Contributions**—Amounts paid for the employer's share of retirement and long-term disability contributions to the Arizona State Retirement System. **Although expenditure object codes 6231, 6232, and 6235 are optional, districts must maintain adequate records to separately identify State Retirement, Long-Term Disability, and the Alternative Contribution Rate amounts.**	
6231	*State Retirement*	
6232	*Long-Term Disability*	
6235	*Alternative Contribution Rate* A.R.S. §38-766.02	
6240	**Tuition Reimbursement**—Amounts reimbursed to any employee qualifying for tuition reimbursement on the basis of district policy.	

Salaries and benefits for Other Instructional Staff (e.g., classroom aides) should be coded to function code 1900

Object Code	Description	Function Guidance
6250	**Unemployment Insurance**—Amounts paid to provide unemployment insurance for its employees. Districts may distribute these charges to functions in accordance with the salary budget or may code them to function ***2310***.	
6260	**Workers' Compensation**—Amounts paid to provide workers' compensation insurance for its employees. Districts may distribute these charges to functions in accordance with the salary budget or may code them to function ***2310***.	
6270	**Health Benefits**—Amounts paid to provide health benefits, other than insurance, for its current or former employees.	
6280	**Unused Leave and Severance Payments**—Amounts paid for unused leave and severance pay when employees separate from employment. Although expenditure object codes 6281 through 6283 are optional, districts must maintain adequate records to be able to report these categories for use in the indirect cost calculation.	
6281	*Unused Leave Payments*—Amounts paid for unused leave when an employee retires or separates from district employment.	
6282	*Normal Severance Payments*—Amounts paid other than leave payments, if any, when an employee retires or separates from district employment. Do not include amounts for abnormal or mass severance payments here as those are classified in 6283 below.	
6283	*Abnormal or Mass Severance Payments*—Amounts paid as separation incentives when offered to all employees or all employees in an employee group or class. Include payments such as lump sum payments that may be linked to years of service, increased pension benefits, and payments of unused leave beyond normal amounts.	

Object Code	Description	Function Guidance
6290	**Other Employee Benefits**—Employee benefits other than those coded elsewhere in the expenditure object code 6200 range, including fringe benefits such as taxable meal reimbursements, automobile allowances, housing or related supplements, moving expenses, and paid parking. Districts may establish separate codes for various accrued amounts.	
6300	**PURCHASED PROFESSIONAL AND TECHNICAL SERVICES**—Services that by their nature only persons or firms with specialized skills and knowledge can perform. Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided. Included are the services of architects, engineers, auditors, dentists, medical doctors, lawyers, consultants, teachers, and accountants. It is recommended that districts establish a separate account for each type of service provided to a district. This code also includes conference registration fees and online access to information (e.g., periodicals or research libraries) or assessment materials (e.g., certification exams or standardized testing). Online access to research or assessment materials are not considered software. ***(See additional bold code below)***	
6310	*Official/Administrative Services*—Services in support of a district's various policy-making and managerial activities. Include management-consulting activities oriented to general governance or business and financial management of a district, school management support activities, and election services.	Usually **2300** **2400** **2500**
6320	*Professional—Educational Services*—Services supporting the instructional program and its administration. Include curriculum improvement services, assessment, counseling and guidance services, library and media support, and contracted instructional services.	Usually **1000** **2100** **2200**
6330	*Other Professional Services*—Professional services other than educational services that support the operation of a district. Include medical doctors, lawyers, architects, auditors (for federal programs only), accountants, therapists, audiologists, dietitians, editors, negotiations specialists, systems analysts, and planners.	

Object Code	Description	Function Guidance
6340	**Technical Services—**Services that are not regarded as professional, but require basic scientific knowledge, manual skills, or both. Include data processing and coding services, data entry, formatting, and processing services other than programming; purchasing and warehousing services; and graphic arts. A separately identifiable service/support component purchased with software or with a subscription-based information technology arrangement (software subscription) should be coded here.	
6350	**Audit Services—**Audit services associated with financial and compliance audits of a district. Do not include amounts related to audits of federal programs. Districts should code federal program audit costs to expenditure object code **6330**.	Usually *2310*
6360	*Employee Training and Professional Development Services*—Services supporting the professional development of district personnel, including instructional, administrative, and service employees. Included are course registration fees that are not tuition reimbursement; charges from vendors to conduct training courses, at either district facilities or off-site; and other expenditures associated with training or professional development by third-party vendors. Districts should capture all expenditures in this account regardless of the type or intent of the training course or professional development activity.	Only *2213* *2230* *2570*
6400	PURCHASED PROPERTY SERVICES ***(Use detailed codes below)*** **Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.**	
6410	**Utility Services—**Expenditures for utility services supplied by public or private organizations other than water/sewage (6411), telecommunication (**6531**) and energy services (**6620** range).	
6411	**Water/Sewage**—Expenditures for water/sewage utility services from a private or public utility company.	

Object Code	Description	Function Guidance
6420	**Cleaning Services—**Services purchased to clean buildings and grounds, including snow removal, custodial, and lawn care services not provided by district employees. Districts should code disposal services to object code 6421.	Only **2600**
6421	**Disposal Services—**Expenditures for garbage pickup and handling not provided by district employees.	Only **2600**
6430	Repairs and Maintenance Services**—**Expenditures for repairs and maintenance services not provided directly by district employees including routine preventive maintenance. Expenditures for repairs and maintenance return an asset to its normal operating condition. Routine preventive maintenance is services that are performed on a regular schedule at intervals ranging from 4 times a year to once every 3 years, or on the schedule the manufacturer recommends for the specific building system or equipment, that are intended to extend the useful life of a building system and reduce the need for major repairs. This definition aligns with the related Building Renewal Grant Fund definition in A.R.S. §41-5731. Districts cannot pay for these services from the **UCO** Fund. ***(Use detailed codes below)***	
6431	**Nontechnology-Related Repairs and Maintenance—**Contracts and agreements covering the upkeep of buildings and nontechnology equipment. Districts should code costs for renovating and remodeling to expenditure object code **6450**.	Only **2600** **2700**
6432	**Technology-Related Repairs and Maintenance—**Expenditures for repairs and maintenance services for technology equipment that are not directly provided by district employees. This includes ongoing service agreements for technology hardware.	Only *2230* *2580*
6440	**Rentals—**Costs for leasing land, buildings, and equipment on a short-term (12 months or less) basis. Districts should code payments for principal and interest on leases and financed purchase agreements, to expenditure object codes **6832** and **6842**.	
6441	*Rental of Land and Buildings***—**Expenditures for leasing land and buildings on a short-term (12 months or less) basis.	Only 2610

Object Code	Description	Function Guidance
6442	*Rental of Equipment*—Expenditures for leasing machinery, vehicles, furniture, fixtures, and other equipment on a short-term (12 months or less) basis. This includes short-term bus and other vehicle leases when district personnel operate them. Districts should code expenditures for the rental of vehicles for employee travel to expenditure object code **6580**.	
6443	**Rental of Computers and Related Equipment—**Expenditures for leasing computers and related equipment on a short-term (12 months or less) basis.	
6450	**Construction Services—**Includes amounts paid to contractors for constructing, renovating, and remodeling buildings that extends the life of a building or other property and is not done for aesthetic purposes or as routine preventive maintenance. Districts should code costs for repairs and maintenance to expenditure object code **6430.** Districts should also use this code to account for amounts paid to contractors for making permanent improvements to land, such as grading, fill, and environmental remediation, and nonpermanent site improvements such as fencing, walkways, and roads. Additional examples of construction projects include asbestos removal, capital asset removal, and reroofing an entire building. Districts must pay for construction services from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. **See the construction capital coding tool at the end of the chart of accounts to help determine the appropriate coding for construction purchases.**	Only **4000**
6490	**Other Purchased Property Services—**Purchased property services that are not coded elsewhere in the expenditure object code 6400 range. Districts should code communication services to expenditure object code **6531** or **6532**.	Usually **2600**

Object Code	Description	Function Guidance
6500	OTHER PURCHASED SERVICES ***(Use detailed codes below)*** **Although a product may or may not result from the transaction, the primary reason for the purchase is the service provided.**	
6510	Student Transportation Services ***(Use detailed codes below)***	
6511	**Student Transportation Purchased From Other Arizona Districts—**Amounts paid to other Arizona districts for transporting children to and from school and school-related events.	Only **2700**
6512	**Student Transportation Purchased From Out-of-State Districts—** Payments to districts outside Arizona for transporting children to and from school and school-related events.	Only **2700**
6519	**Student Transportation Purchased From Other Sources—** Payments to persons or agencies other than districts for transporting children to and from school and school-related events. These include payments to individuals who transport themselves or their own children or for reimbursement of transportation expenditure/expenses on public carriers. Districts should code expenditures for the short-term (12 months or less) rental of buses when district personnel operate them to expenditure object code **6442**.	Only **2700**
6520	Insurance (Other than Employee Benefits) ***(Use detailed codes below)***	
6521	**Current Year Insurance—**Expenditures for insurance coverage, including property, liability, and fidelity, for the current fiscal year. Districts should code group health insurance to expenditure object code **6210**.	Only *2310* *2610* **2700**

Object Code	Description	Function Guidance
6522	**Prepaid Insurance—**Expenditures in the current year for insurance coverage, including property, liability, and fidelity, to be provided in subsequent fiscal years. Districts should code group health insurance to expenditure object code **6210**. For financial statement reporting purposes, in accordance with governmental accounting standards, district should report prepaid insurance as an asset (balance sheet object code **0151**). However, districts use this expenditure code to record prepaid insurance under their budgetary basis of accounting to ensure the spending is subject to district budget limits. Therefore, districts should report the prepaid amount as an expenditure in the AFR, subject to the funds' budget limits, as applicable, and then adjust its records to reflect a prepaid asset in the financial statements.	Only *2310* *2610* **2700**
6530	Communications ***(Use detailed codes below)***	
6531	**Telecommunications**—Expenditures for telephone and voice communication services, and voicemail; data communication services to establish or maintain computer-based communications, networking, and Internet services; video communications services to establish or maintain one-way or two-way video communications via satellite, cable, or other devices a service provider bills.	Usually *2610* If supporting instruction: **1000** *2230*
6532	**Other Communications Services**—Costs of services persons or businesses provide that assist in transmitting and receiving messages, such as postal communication services to establish or maintain postage machine rentals, postage, express delivery services, or couriers.	Only **2500** If related to elections: **2340**
6540	**Advertising**—Expenditures for announcements in professional publications, newspapers, broadcasts over radio and television, or on the Internet. These expenditures include advertising for such purposes as personnel recruitment, legal ads, new and used equipment, and sale of property. Districts should code costs for professional advertising or public relations services to expenditure object code **6330**.	Usually **2300** **2500**

Object Code	Description	Function Guidance
6550	**Printing and Binding**—Expenditures for job printing and binding, usually according to a district's specifications. This includes designing and printing forms and posters as well as printing and binding district publications. Districts should code preprinted standard forms to expenditure object code **6610**.	Usually *2540*
6560	Tuition ***(Use detailed codes below)***	
6561	**Tuition to Other Arizona Districts**—Tuition paid to other districts within the State that educate students residing within a district's boundaries. A.R.S. §§15-824 and 15-825	Only **1000**
6562	**Tuition to Out-of-State Districts**—Tuition paid to districts outside the state that educate students residing within a district's boundaries. A.R.S. §15-825	Only **1000**
6563	**Tuition to Private Schools**—Tuition paid to private schools that educate students with disabilities residing within a district's boundaries. A.R.S. §15-765	Only **1000**
6564	**Tuition to Educational Service Agencies, Cooperatives, IGAs, and Community College Districts**—Tuition paid to a county or county educational service agency, or fiscal agent of an entity 2 or more districts form for the purpose of educating students, such as county service programs (including payments to the Small District Service Program Fund pursuant to A.R.S. §15-365). Also includes tuition paid through an intergovernmental agreement (IGA) for district students enrolled in community college district courses. Districts should record other types of payments made to fiscal agents under an IGA in applicable codes (e.g., districts should code shared services of an accountant to expenditure object code **6330**). A.R.S. §15-764	Only **1000**
6569	**Tuition—Other**—Tuition paid to the State and other governmental organizations, such as the Arizona School for the Deaf and Blind, as reimbursement for providing specialized instructional services to students residing within the boundaries of the paying district. A.R.S. §15-765	Only **1000**

Object Code	Description	Function Guidance
6570	**Food Service Management**—Expenditures for the operation of a local food service facility by other than district personnel. Included are contracted services, such as food preparation, associated with the food service operation. Direct expenditures by a district for food, supplies, labor, and equipment should be coded to the appropriate object codes.	Only **3100**
6580	**Travel**—Expenditures for district personnel, as well as federally funded advisory committee members and nonemployees traveling for an official district purpose. Included are transportation (e.g., public transportation fares, private vehicle reimbursement at the designated rate per mile, or vehicle rentals), meals with an overnight stay or substantial rest period, lodging, and other expenses. Payments of set amounts on a monthly or other periodic basis, regardless of actual travel time, are not considered travel expenses but should be treated as employee compensation in the applicable expenditure object code in the **6100**s. Districts should code student travel to expenditure object code **6890.** Districts should code conference registration fees to expenditure object code **6300**.	
6590	**Miscellaneous Purchased Services**—Purchased services other than those coded elsewhere in the expenditure object code 6500 range. Districts should code any payments made to other districts except for tuition and transportation to 6591 or 6592. ***(See additional detailed codes below)***	
6591	**Services Purchased from Other Arizona Districts**—Payments to another district within Arizona for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance. If a question arises as to whether to code such payments to the expenditure object code **6300** range or to this code, districts should use 6591 to facilitate elimination of *all* payments between districts when consolidating reports from multiple districts at State and federal levels.	

Object Code	Description	Function Guidance
6592	**Services Purchased from Out-of-State Districts**—Payments to another district outside Arizona for services rendered, other than tuition and transportation fees. Examples of such services are data processing, purchasing, nursing, and guidance. If a question arises as to whether to code such payments to the expenditure object code **6300** range or to this code, districts should use 6592 to facilitate elimination of *all* payments between districts when consolidating reports at the federal level.	
6600	SUPPLIES ***(Use detailed codes below)*** **Items that are consumed, worn out, or deteriorate through use; or items that lose their identity through fabrication or incorporation into different or more complex units or substances.**	
6610	**General Supplies**—Expenditures for all supplies (other than those appropriately classified in another 6600 code listed below) for the operation of a district, including: • **Construction materials**—Supplies such as concrete, lumber, nails, electrical switches/outlets, wire, insulation, and roofing materials a district employee uses during original construction or renovation of a building or land improvement. Districts cannot pay for construction materials from the **M&O** Fund. Amounts paid to contractors for construction or renovation projects are recorded in object code **6450**. **See the construction capital coding tool at the end of the chart of accounts to help determine the appropriate coding for construction purchases.** • **Other general supplies**—Supplies used in the operation of a district, such as consumable (e.g., items that are used up, worn out, or discarded relatively quickly) teaching or office supplies and supplies used in repair and maintenance projects. These supplies cannot be paid for from the **UCO** Fund. If an item qualifies as an instructional aid, districts should record it in object code **6643**.	
6611	*District Supplies*	

Object Code	Description	Function Guidance
6612	*Supplies for Sale or Rental*	
6620	Energy ***(Use detailed codes below)***	
6621	**Natural Gas**—Expenditures for gas utility services from a private or public utility company, or natural gas for vehicles purchased in bulk or periodically from a service station.	Usually *2610* **3100** Used in vehicles: *2650* *2710*
6622	**Electricity**—Expenditures for electric utility services from a private or public utility company. Districts that maintain separate meters for food service operations or electric vehicles may choose to split expenditures between function codes, as appropriate.	Usually *2610* **3100** Used in vehicles: *2650* *2710*
6623	**Bottled Gas**—Expenditures for bottled gas, such as propane received in tanks, for use in buildings or for fueling vehicles.	Usually *2610* 3100 Used in vehicles: *2650* *2710*
6624	**Oil**—Expenditures for bulk oil normally used for heating.	Usually *2610*
6625	**Coal**—Expenditures for raw coal normally used for heating.	Usually *2610*
6626	**Unleaded Fuel**—Expenditures for unleaded fuel purchased in bulk or periodically from a service station.	Usually *2650* *2710*

Object Code	Description	Function Guidance
6627	**Diesel Fuel**—Expenditures for diesel fuel purchased in bulk or periodically from a fuel service station.	Usually *2650* *2710*
6629	**Other**—Expenditures for energy that districts cannot code in one of the preceding categories.	
6630	Food ***(Use detailed codes below)***	
6631	**USDA Commodities (Excluding Freight)**—The fair market value of commodities donated by the U.S. Department of Agriculture for the district's food service program. Districts should code processing charges to expenditure object code 6633 and storage costs to expenditure object code 6634.	Only **3100**
6632	**USDA Commodities (Freight Only)**—Expenditures for freight charges for USDA commodities.	Only **3100**
6633	**Other Food**—Expenditures for food used in the district's food service program. Districts should code USDA commodities to expenditure object code 6631; however, any processing charges for USDA commodities should be coded here. Districts should code food used in instructional programs to expenditure object code **6610**.	Only **3100**
6634	**Storage Costs for USDA Commodities**—Expenditures for the storage costs related to USDA commodities.	Only **3100**

Object Code	Description	Function Guidance
6640	Books, Periodicals, and Instructional Aids ***(Use detailed codes below)***	
6641	**Library Books—**Expenditures for purchases of library books and related items available for general use by students, including resource materials maintained in a library or classroom, such as videos, software [including short-term (12-month or less) software subscriptions], newspapers, magazines, books, and other media used in the library/media center. Also recorded here are binding or other repair costs for library books. Payments for software subscriptions more than 12 months, should be coded to expenditure object codes **6832** and **6842**. Library books must be paid for from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. See the **noninstructional software coding tool** at the end of the chart of accounts to help determine the appropriate coding for software purchases. A.R.S. §15-903(C)	Usually **2200**
6642	**Textbooks—**Expenditures for printed or nonprinted instructional materials or educational systems for each course of study adopted by the governing board in accordance with A.R.S. §§15-721 and 15-722. Such materials may include books, workbooks, computer software [including short-term (12-month or less) instructional software subscriptions], videos, and other media for instructional purposes. Also recorded here are the cost of textbooks that are purchased to be resold or rented and binding or other repair costs for textbooks. Payments for instructional software subscriptions more than 12 months, should be coded to expenditure object codes **6833** and **6843.** Textbooks must be paid for from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. See the **instructional software coding tool** at the end of the chart of accounts to help determine the appropriate coding for software purchases. A.R.S. §15-903(C)	Usually **1000**

Object Code	Description	Function Guidance
6643	**Instructional Aids—**Expenditures for materials used by students that supplement a district's adopted educational program. Example instructional aids may include books or workbooks that supplement the adopted curriculum, drama scripts/plays, globes/maps, sheet music, and math manipulatives. If the Governing Board adopts an item that meets the definition of instructional aid as part of the basic instructional program, districts should code it to object code 6642. Expenditures for items appropriately coded as equipment in the **6730** object code range should not be reported here even if used in the educational program. Additionally, general supplies of a consumable nature (e.g., items that are used up, worn out, or discarded relatively quickly), such as pens, pencils, crayons, and clay, should be coded to object code **6610**. Districts must pay for instructional aids from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. A.R.S. §15-903(C) See the **instructional software coding tool** at the end of the chart of accounts to help determine the appropriate coding for software purchases.	Usually **1000**
6644	**Other Books, Periodicals, and Media—**Expenditures for books, periodicals, and other media such as DVDs purchased for nonstudent users or for noncredit enrichment programs. Books and periodicals for noninstructional staff should be coded to function *2590.*	Usually **1000** **2200** *2590*
6650	**Supplies—Technology-Related—**Technology-related supplies that are typically used in conjunction with technology-related hardware or software. Some examples are writable CDs/DVDs, flash or jump drives, parallel cables, and monitor stands.	Usually **1000** *2230* *2580*
6655	**Short-term Noninstructional Software Subscription—**Payments for 12-month or less noninstructional software subscriptions. These subscriptions must be paid for from the **UCO** Fund or another allowable fund, but not from the **M&O** Fund. Noninstructional software subscriptions more than 12 months should be coded to expenditure object code **6832** and **6842**. See the **noninstructional software coding tool** at the end of the chart of accounts to help determine the appropriate coding for software purchases.	

Object Code	Description	Function Guidance
6700	PROPERTY ***(Use detailed codes below)***	
6710	**Land and Existing Land Improvements**—Expenditures for the purchase of land and the existing land improvements thereon. Include the present value amount of land leases in the year of acquisition. Districts should code periodic financed purchase and lease payments to expenditure object codes **6832** and **6842**. Also included are special assessments against a district for capital improvements such as streets, curbs, and drains. Districts should code expenditures for the contracted services for improving sites and adjacent ways after acquisition to expenditure object codes **6300** or **6450**, as appropriate. Districts should code site and adjacent ways improvements performed by district employees as salaries, benefits, and materials in the applicable object codes in the **6100**s, **6200**s, **6610**, and **6730**s. Districts cannot pay for land and existing land improvements costs from the **M&O** Fund.	Only *4100* *4200* *4600*
6720	**Buildings**—Expenditures for acquiring existing buildings. Also, include the present value amount of building leases in the year of acquisition. Districts should code periodic financed purchase and lease payments to expenditure object codes **6832** and **6842**. Districts should code expenditures for the contracted construction of buildings, for major permanent structural alterations, and for the initial or additional installation of heating and ventilating systems, fire protection systems, and other service systems in existing buildings to expenditure object code **6450**. Districts should code buildings built and alterations performed by district employees as salaries, benefits, and materials in the applicable object codes in the **6100**s, **6200**s, **6610**, and 6730s. Districts should code building rent to expenditure object code **6440**. Districts cannot pay for building costs from the **M&O** Fund.	Only *4500* *4700*

<table>
<tr><th>Object Code</th><th>Description</th><th>Function Guidance</th></tr>
<tr><td>6730</td><td>Equipment (Use detailed codes below)</td><td></td></tr>
<tr><td>6731-
6742</td><td>Expenditures for initial, additional, and replacement equipment in the categories below. Districts should code periodic financed purchase and lease payments to expenditure object codes 6832 and 6842. Districts should classify nonfinanced equipment in the applicable detailed object codes below and cannot pay for them from the M&O Fund.

Districts should code an item as equipment if the district determines it meets <u>all</u> of the following criteria:

1. Item under normal conditions of use, including reasonable care and maintenance, can be expected to serve its principal purpose for at least 1 year.
2. If the item is damaged or some of its parts are lost or worn out it is more feasible to repair the item than to replace it with an entirely new unit.
3. Item is an independent unit that retains its original shape, appearance, and character with use and does not lose its identity through fabrication or incorporation into a different or more complex unit or substance.

For the detailed code guidance, see next page.

See the equipment capital and noninstructional software coding tools at the end of the chart of accounts to help determine the appropriate coding for equipment and software purchases based on how the district acquires and uses the items.</td><td></td></tr>
<tr><td></td><td colspan="2">
<table>
<tr><th>Cost less than $5,000</th><th>Cost $5,000 or more</th><th>Cost $10,000 or more (only required when using federal grants)</th><th>Equipment categories</th></tr>
<tr><td>6731 and/or 6732</td><td>6733</td><td>6740</td><td>Furniture and equipment</td></tr>
<tr><td>6734 and/or 6735</td><td>6736</td><td>6741</td><td>Vehicles</td></tr>
<tr><td>6737 and/or 6738</td><td>6739</td><td>6742</td><td>Technology-related hardware and software</td></tr>
</table>
</td><td></td></tr>
</table>

Object Code	Description	Function Guidance
	Arizona school districts do not use a dollar threshold for determining whether an item is coded as equipment or a supply. The detailed equipment classifications above allow correct coding of equipment in accordance with Arizona requirements and separate identification of items lower than $10,000 and more than $10,000 for federal grant reporting, including indirect cost reporting. Districts should follow guidance in the **Property Control section for determining which equipment purchases within these codes should be tracked and recorded as capital asset and stewardship items.*	
6750	**Depreciation/Amortization**—Used to record depreciation or amortization to expense the cost of a capital asset, including right-to-use lease and subscription assets, less its salvage value, over the years of service. See the **Property Control section** for information on depreciation/amortization. **Districts should use this code in proprietary funds only.**	
6760	**Capital Asset Impairments**—Used to record impairment losses on capital assets. An asset is considered impaired when there is a significant, unexpected decline in the amount of service. If the loss meets the criteria as an unusual or infrequent item, then districts should use unusual or infrequent outflows object code **6950**. **Districts should use this code in proprietary funds only.**	
6800	DEBT SERVICE AND MISCELLANEOUS ***(Use detailed codes below)***	
6810	**Dues and Fees**—Expenditures or assessments for membership in professional or other organizations, personnel certification/licensing fees, or payments to a paying agent for services rendered, such as bank fees.	

Object Code	Description	Function Guidance
6820	**Judgments Against a District**—Expenditures from current funds for all judgments against a district that are not covered by liability insurance but are of a type that insurance might have covered . Record only amounts paid as the result of court decisions or legal agreements here. Judgments against a district resulting from failure to pay bills or debt service are recorded under the appropriate expenditure object codes as though the district had paid the bills or debt service when due.	Only *2310*
6830	Redemption of Principal ***(Use detailed codes below)***	
6831	**Bonds**—Principal payments on bonds in the current year.	Only **5000**
6832	**Other**—Principal payments on long-term obligations, other than bonds, such as leases and financed purchase agreements for property and noninstructional software subscriptions. Districts should code short-term (12-month or less) leases to expenditure object code **6440** or **6443**. Districts should code short-term noninstructional software subscriptions to expenditure object codes **6641** or **6655**, as applicable. Districts should code separately identifiable service/support components of software subscriptions to **6340**. See the **capital** or **noninstructional software coding tools** at the end of the chart of accounts to help determine the appropriate coding for capital and software purchases.	Only **5000**
6833	Instructional software subscriptions (more than 12 months)—Principal payments on instructional software subscriptions. Districts should code short-term (12-month or less) instructional software subscriptions to expenditure object code **6642** or **6643**. Districts should code separately identifiable service/support components of software subscriptions to **6340**. See **6832** for information on coding noninstructional software subscriptions. See the **instructional software coding tool** at the end of the chart of accounts to help determine the appropriate coding for software purchases.	Only **5000**

Object Code	Description	Function Guidance
6840	Interest on Long-Term Debt ***(Use detailed codes below)***	
6841	**Bonds**—Interest payments on bonds.	Only **5000**
6842	**Other**—Interest payments on long-term obligations, other than bonds, such as leases and financed purchase agreements for property and noninstructional software subscriptions. See the **noninstructional software coding tool** at the end of the chart of accounts to help determine the appropriate coding for software purchases.	Only **5000**
6843	**Instructional software subscriptions (more than 12 months)**—Interest payments on instructional software subscriptions. See the **instructional software coding tool** at the end of the chart of accounts to help determine the appropriate coding for software purchases.	Only **5000**
6850	**Interest on Short-Term Debt**—Expenditures for interest on tax anticipation notes, registered warrants, revolving lines of credit, and account balances not paid in full within 30 days.	Only **2510**
6860	**Bond Issuance and Other Debt-Related Costs**—Expenses in connection with bond and other debt issuance costs, including financed purchase agreement debt issuance costs. Also include issuance costs related to issuing refunding bonds. Use Other Financing Use object code **6940** for payment of principal and interest not yet due on bonds being refunded with new bond proceeds.	Only **5000**
6870	**Pass-through Payments**—Payments to another entity for monies the district receives on their behalf or as a legal agreement requires including IGAs. Districts pay such payments to the other entity without directly controlling how the monies are spent by that entity. Include Career Technical Education District payments made to member districts and any other similar payments that are not considered sub-awards as described in 6880 below. **Used in the indirect cost calculation.**	

Object Code	Description	Function Guidance
6880	**Sub-awards**—Sub-awards are awards a district provides to a subrecipient to carry out part of the services for which the district received the award. Sub-awards do not include payments to a contractor or payments to an individual that is a beneficiary of the program the award pays for. Districts may provide a sub-award through any form of legal agreement or contract. **Districts must maintain adequate records to be able to report the portion of each individual sub-award exceeding $50,000 for the indirect cost calculation.**	
6885	**Charges for District Services**—Payments made to an **Internal Services Fund** from another district fund (quasi-external interfund transactions) for services provided such as print shops, transportation services, and other services. This code is used for all quasi-external payments to avoid double reporting district expenditures.	
6886	**Fees Paid on a Student's Behalf with Grant Monies**—Payments made from district grant funds to another district fund to pay class, summer school, field trip, or other school fees on a student's behalf, in lieu of a parent or guardian payment. Districts should refer to grant program guidance to determine the allowability of such expenditures. **Used only with revenue object code 1755 to record the related revenue in the receiving district fund.** Districts should evaluate all transactions using this expenditure object code to determine if interfund activity should be eliminated for financial statement reporting purposes. However, charges for interfund activity are not eliminated if the prices approximate their external exchange values (i.e., similar to what a parent would pay).	
6890	**Miscellaneous Expenditures**—Amounts paid for goods or services not properly coded to any other expenditure object code. Districts should code students' food and hotel costs associated with student travel, as well as student entrance fees here. Districts should also report the refund of prior year's revenues here.	

For codes related to transfers-out, payments to escrow agent for defeasance of debt, and unusual or infrequent items, see next 2 pages.

Object Code	Description	Function Guidance
6900	OTHER FINANCING USES AND OTHER ITEMS ***(Use detailed codes below)***	
6910	**Indirect Costs Transfers-Out**—An amount approved as a percentage of the total project budget and used to pay overhead costs that districts cannot easily identify with a specific project. Indirect costs are calculated based on an approved indirect cost rate. This object code should be used when monies are transferred to the Indirect Costs Fund from a Federal Project Fund or the Food Service Fund. Districts should use other financing sources object code **5200** to record the transferred monies received in the Indirect Costs Fund. Districts should include this object code as a fund transfers-out for financial reporting purposes.	Only **6000**
6930	**Fund Transfers-Out**—Used to classify operating transfers from one fund to another. Districts should use other financing sources object code **5200** to record the corresponding transfer-in amount. See list of **authorized transfers**.	Only **6000**
6940	**Payment to Escrow Agent for Defeasance of Debt**—Amounts paid to an escrow agent from advance refunding bond proceeds that districts will place in an irrevocable trust.	Only **6000**

Object Code	Description	Function Guidance
6950	**Unusual or Infrequent Items**—Transactions or events that are unusual in nature or infrequent in occurrence. **For financial reporting purposes, districts should maintain documentation to separately report and disclose outflows related to each unusual or infrequent item, including note disclosures of the related program, function, or activity the unusual or infrequent item is related to, if applicable.** • *Unusual nature*—The underlying event or transaction should possess a high degree of abnormality and be of a type clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the district, taking into account the environment in which the district operates. • *Infrequency of occurrence*—The underlying event or transaction should be of a type that would not reasonably be expected to recur in the foreseeable future, taking into account the environment in which the district operates. For some districts, this may include termination benefits resulting from workforce reductions; costs in connection with an early retirement program offered to all employees represented in 1 or more classes of employees; significant costs related to a natural disaster caused by fire, flood, tornado, hurricane, or hail storm; or costs related to an environmental disaster.	Use the function code the unusual or infrequent item is related to.

This account code element identifies expenditures by instructional level and school. The first digit of the 3-digit unit code identifies the instructional level, and the second and third digits identify the individual school. This element is also useful for districts that have established site-based management procedures by providing each school with a budget allotment. In addition, districts with some schools operating on an alternative calendar must separately budget for such schools in accordance with A.R.S. §15-855. Districts should use this element for that purpose.

Code	Description
100	**Elementary—**A school organized as an elementary school with a grade level of kindergarten through grade 8. Expenditures for preschool programs for children with disabilities are coded here.
200	**High School—**A school accredited as a high school with a maximum grade level span of 9 through 12.
500	**District-wide—**Assigned to any expenditure that applies to an entire district and is not clearly assignable to an instructional level. Districts must allocate expenditures coded to this unit code in the district's accounting records to the schools as described in the school-level reporting instructions in the annual financial report. (Districts that have more than 99 district-wide units may also assign numbers higher than 599.)

Arizona Online Instruction (AOI) schools should use a unit code within the 100-range for elementary program expenditures, and within the 200-range for high school program expenditures. If an AOI school contains both elementary and high school grade levels, a code within the 100-range should be used for kindergarten through grade 8, and a code within the 200-range should be used for grades 9 through 12. If an expenditure applies to both elementary and high school grade levels, districts should allocate the cost between the AOI school's elementary and high school unit codes.

Districts should make transfers of monies between funds only when statute specifically authorizes or a federal grant allows it. The following list of authorized transfers does not include any transfers that may be appropriate to allow school districts to reduce taxes as described in statute. See fund descriptions for when districts can use various funds to reduce taxes according to statute. Districts should code fund transfers-in under other financing sources object code **5200**. Districts should code fund transfers-out under other financing uses object code **6930**, or other financing uses object code **6910** when transferring to the Indirect Cost Fund. For each operating fund transfer-in, there should be a corresponding fund transfer-out.

Districts should not record adjustments due to errors or reclassifications of revenues or expenditures from one fund to another as fund transfers. Instead, districts should correct errors or reclassify transactions with journal entries involving the applicable detailed account codes.

From	To	Description	A.R.S. § reference
Bond Building (630)	**Debt Service (700)**	Balance upon completion of the construction or acquisition for which the bonds were issued if a district has outstanding indebtedness.	15-1024(B)
Career and Technical Education Projects (535)	**M&O (001)**	Monies in excess of $100,000 at fiscal year-end.	15-1231(D)
Civic Center (515)	**School Plant (500)**	Balance upon termination of the civic center school program.	15-1105(F)
Community School (520)	**M&O (001)**	Balance upon termination of a community school program.	15-1143
Condemnation (660)	**School Plant (500)**	Unused monies remaining after 10 years.	15-1102(E)
Employee Insurance Program Withholdings (855)	**M&O (001)**	Interest at fiscal year-end.	15-1223(B)

From	To	Description	A.R.S. § reference
Energy and Water Savings (665)	**M&O (001)**	Monies associated with an energy or water savings project remaining after the capital investment monies of the qualified provider or utility, energy or water services company, plus a reasonable carrying charge, are repaid in full.	15-910.02(J)
Federal Projects (100-399) or **Food Service (510)**	**Indirect Costs (570)**	The amount transferred may not exceed the sum of the amount calculated with the district's indirect cost rate the Arizona Department of Education establishes plus any interest on federal program monies the district is not required to revert and chooses to transfer to the Indirect Cost Fund. Federal guidance restricts the use of interest districts retain to administrative expenditures. Districts that choose to transfer allowable federal program interest to the Indirect Costs Fund should separately track the use of those monies to document compliance with the federal guidance.	
Impact Aid (378)	**M&O (001)**	Federal impact aid monies to provide cash for the difference between the Transportation Revenue Control Limit and Transportation Support Level or to reduce or eliminate taxes.	15-905(R)
Impact Aid (378)	**Teacherage (580)**	Federal impact aid monies for the maintenance and renovation of teacher housing.	15-905(R) Laws 2004, Ch. 209

From	To	Description	A.R.S. § reference
Impact Aid Revenue Bond Building (639)	**Impact Aid (378)**	Balance remaining after the acquisition or construction of facilities and payment of other related costs.	15-905(R) 41-5807(C)
Impact Aid Revenue Bond Debt Service (720)	**Impact Aid (378)**	Surplus monies remaining after all impact aid revenue bonds are paid.	15-905(R) 41-5807(B)
Insurance Refund (585)	**Self-Insurance (950-989)**	For payment of uninsured losses, claims, defense costs, and other costs related to self-insurance.	15-386(B)
M&O (001)	**Energy and Water Savings (665)**	Districts must transfer payment amounts for repayment of the capital investment of the qualified provider or utility, energy, or water services company based on the established repayment schedule.	15-910.02(H)
M&O (001)	**School Opening (545)**	Districts may transfer a portion of the ending cash balance. The maximum amount that may be transferred is the lesser of the ending cash balance in the M&O Fund or the eligible budget balance carryforward.	15-943.01(C) and (D)
Other Postemployment Benefits (9XX)	**M&O (001)**	Monies remaining at the end of 5 years of no activity in the OPEB Internal Service Fund. This transfer does not apply to the OPEB Trust Fund (8XX).	15-1225(B)
School Opening (545)	**M&O (001)**	Balance remaining after 5 years of no activity in the School Opening Fund.	15-943.01(C)

From	To	Description	A.R.S. § reference
State Income Tax Withholdings (865)	**M&O (001)**	Interest at fiscal year-end.	15-1222(A)

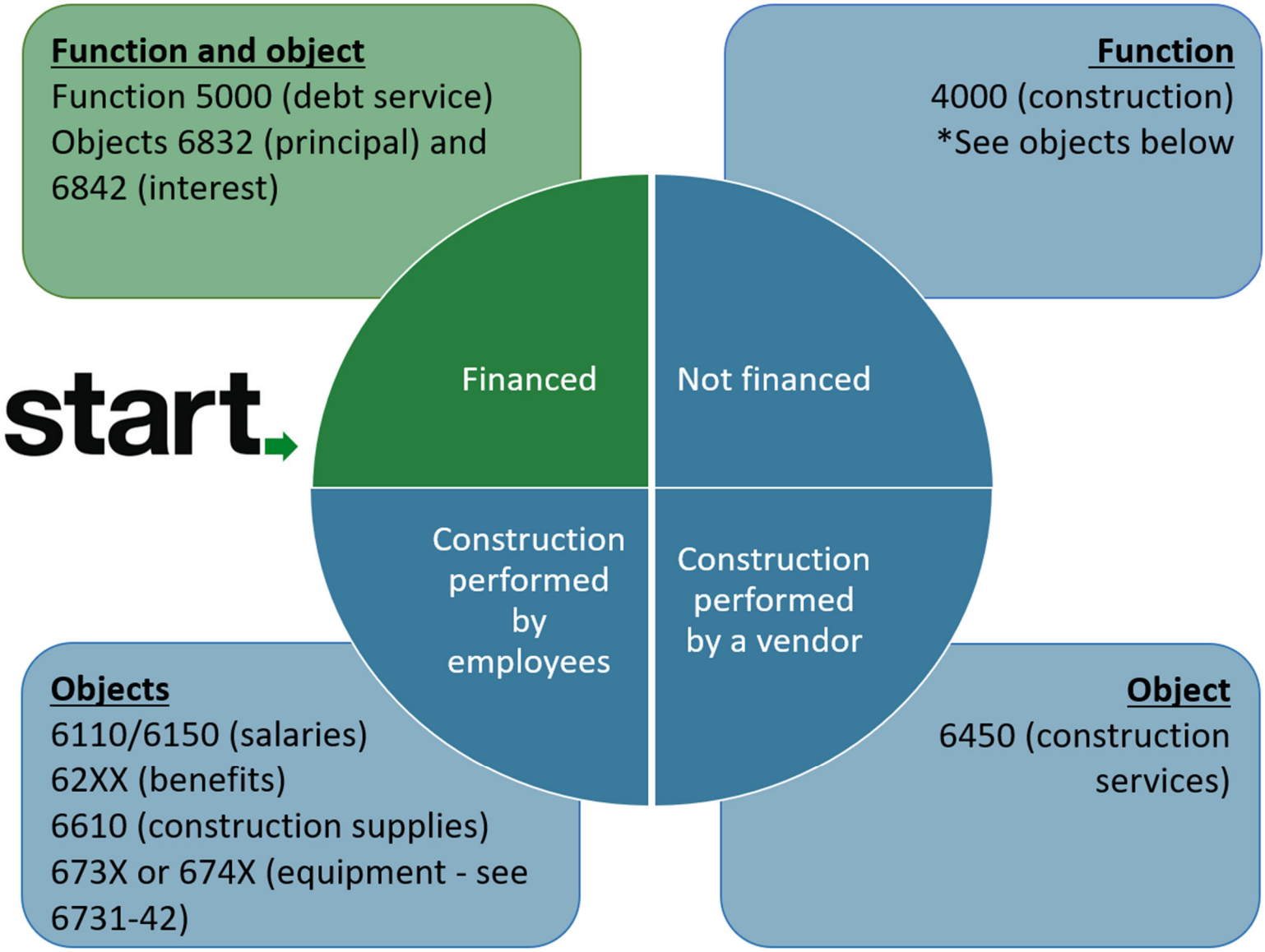
Districts should record adjusting or reversing journal entries to correct or revise their accounting records as needed. Journal entries must follow double-entry accounting as described in the **Accounting Records section** and use the applicable detailed account codes to classify the transaction. Districts should make journal entries, as needed, to:

- Correct posting errors.
- Reclassify revenues or expenditures from 1 fund or object code to another.
- Reverse an expenditure when a refund is received in the same fiscal year as the initial expenditure.
- Close revenue and expenditure accounts to fund balance.

While transfers between funds are done through journal entries, using the appropriate transfer object codes, districts should not use transfers to “adjust” their accounting records for errors or misclassifications. See the authorized transfers section, for a list of allowable fund transfers.

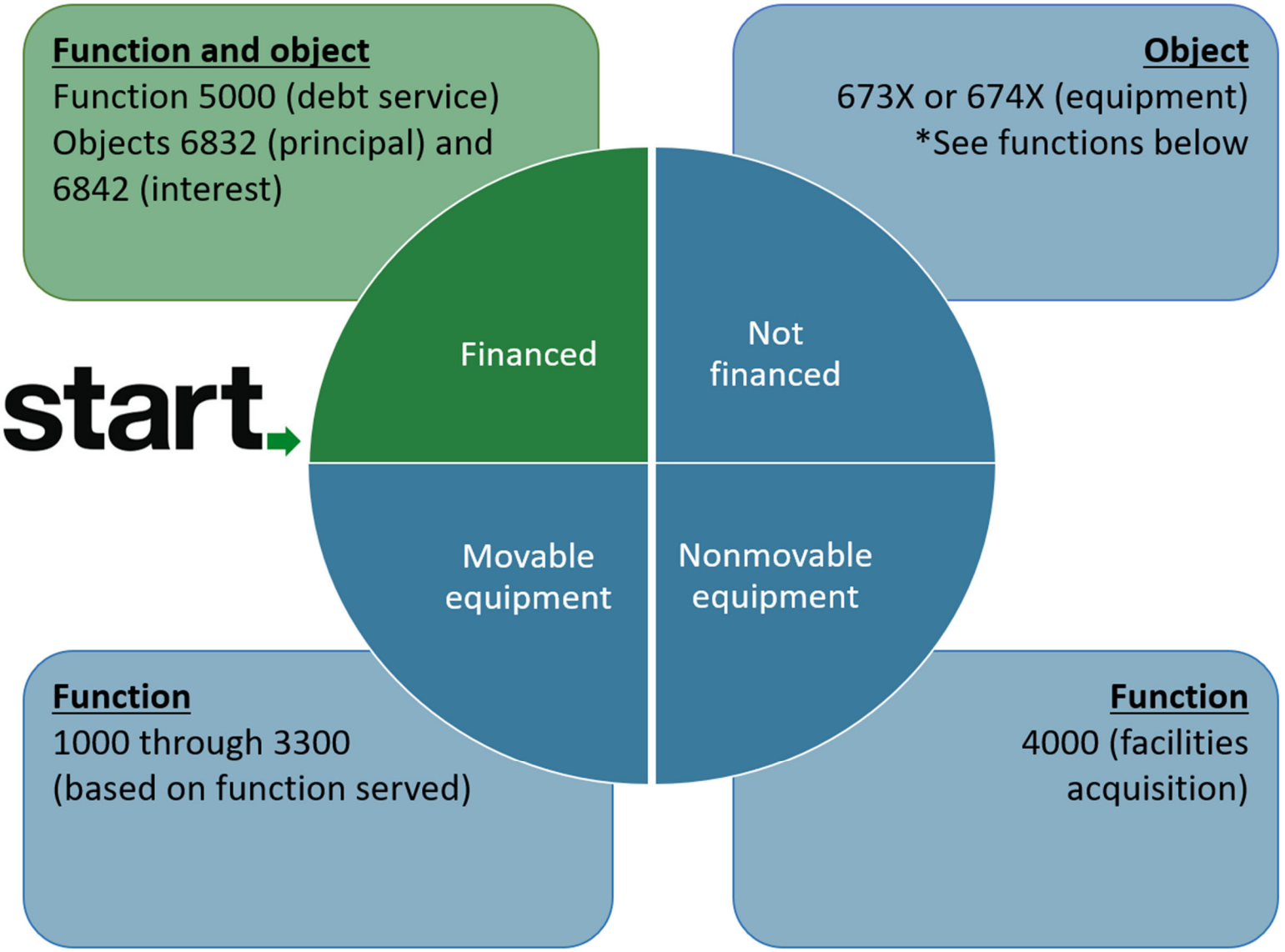
CONSTRUCTION

Use this graphic to help determine the appropriate function and object codes for construction purchases based on the acquisition method and the individuals performing the construction. See object codes 6450 and 6610 for construction services and supplies definitions.



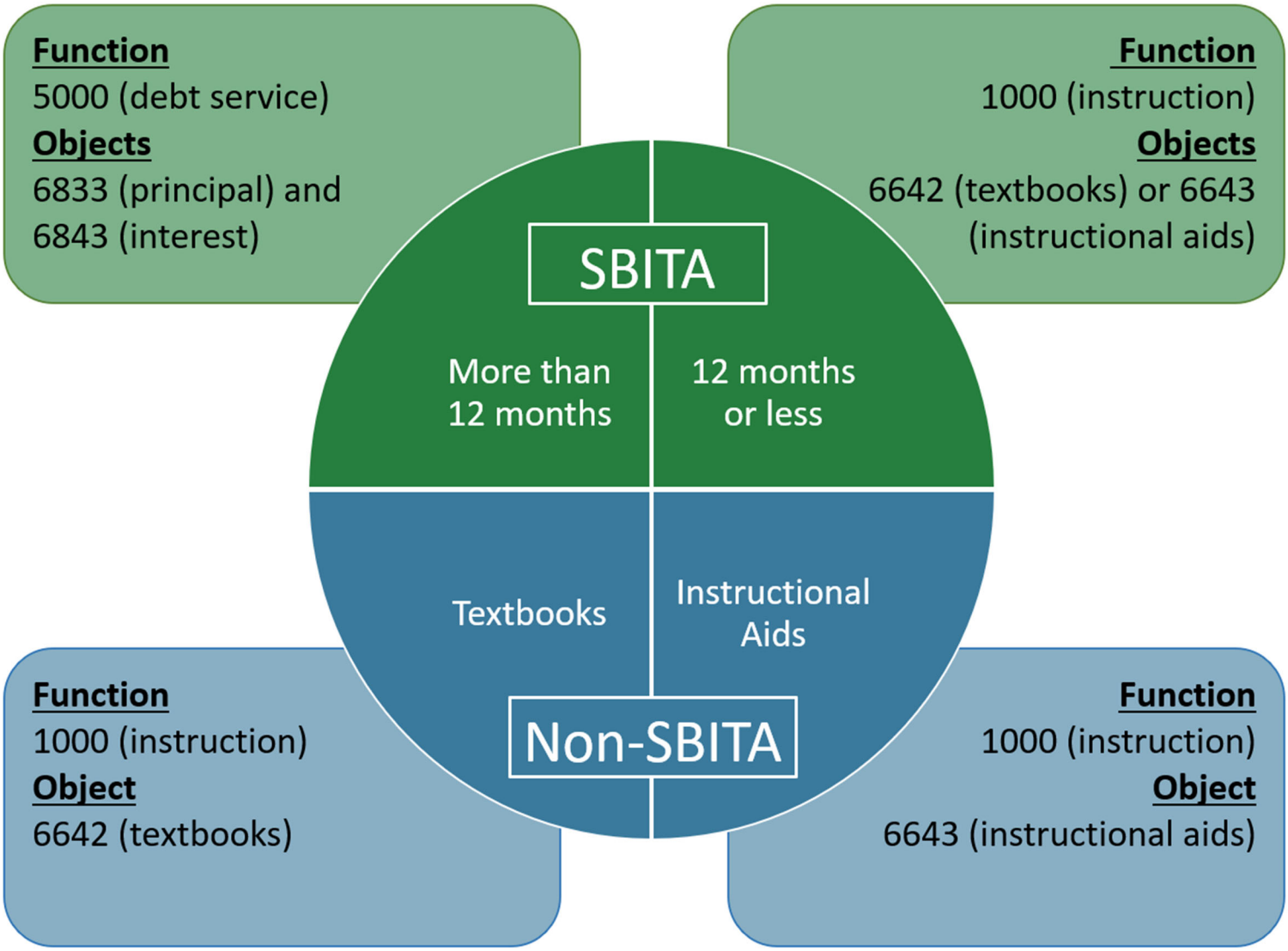
EQUIPMENT

Use this graphic to determine the appropriate function and object codes for equipment purchases based on the acquisition method and type of equipment. See object codes 6731-6742 for equipment definitions.



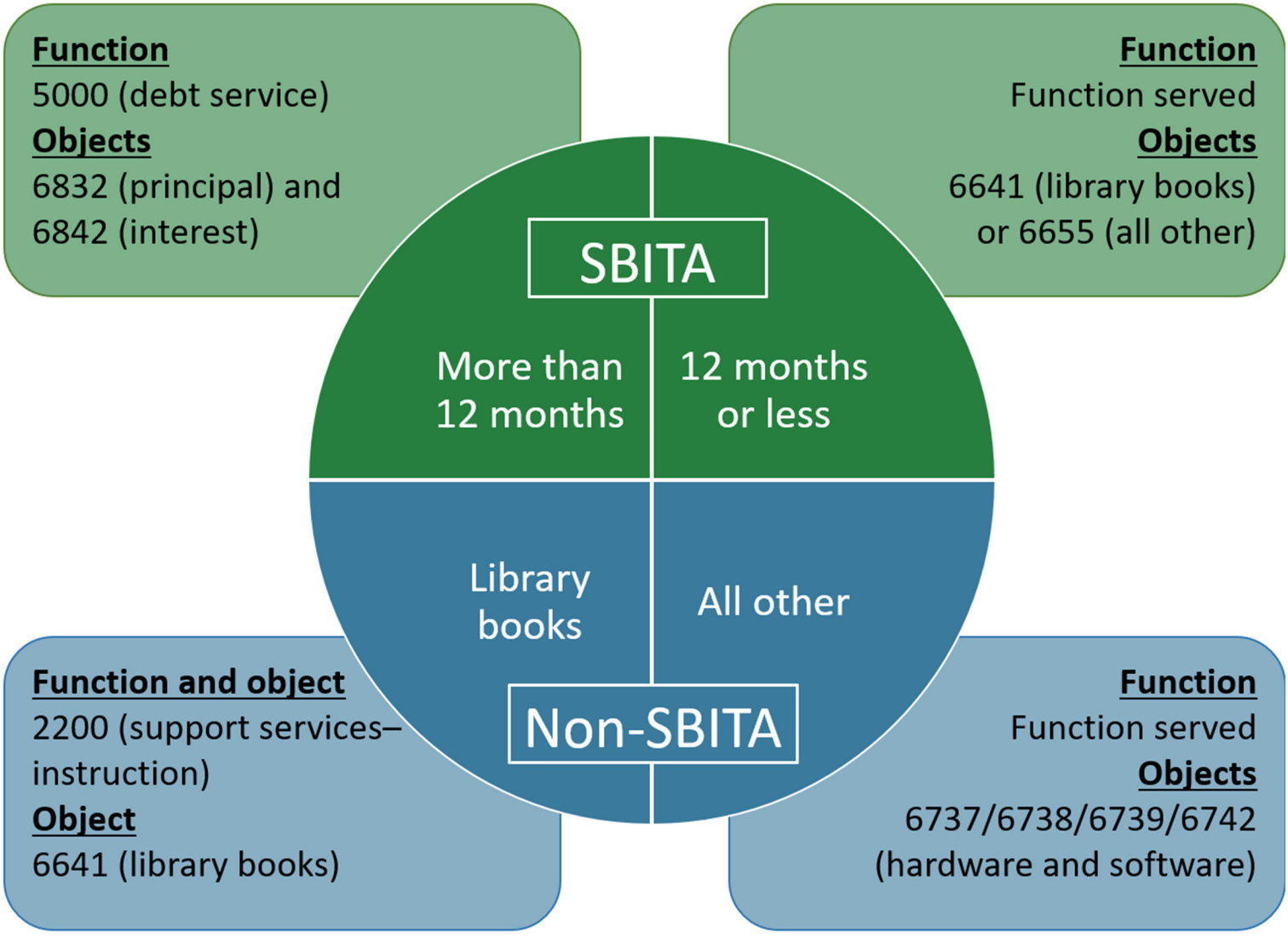
INSTRUCTIONAL SOFTWARE

Use this graphic to determine the appropriate function and object codes for instructional software, including subscription-based information technology arrangements (SBITAs). GASB Statement No. 96



NONINSTRUCTIONAL SOFTWARE

Use this graphic to determine the appropriate function and object codes for noninstructional software, including subscription-based information technology arrangements (SBITA). GASB Statement No. 96



CONTENTS

Topic	Page
INTRODUCTION	1
ANNUAL EXPENDITURE BUDGET	1
Proposed and Adopted Budgets	1
Budget Override Election	1
Budget Revisions	2
Prior-Year Overexpenditure	2
BUDGET CONTROL	2
Daily Budget Control	2
Budget Reports	3
Budget Analysis	3

INTRODUCTION

In accordance with Arizona Revised Statutes (A.R.S.), school districts must prepare, and governing boards must propose and then adopt, annual expenditure budgets that include all district funds. District governing boards should oversee the entire budgeting process. Generally, management, including governing boards, superintendents, chief business officers, and other district and school administrators, develop district budgets. Budgeting considerations should include the district's fiscal goals and policies related to fund balance reserves, capital spending and debt, and employee compensation. Budget considerations should also include current condition assessments, such as analysis of sources of funding, inflation, governmental regulations, competition for students, and demographic trends. A.R.S. §§15-903 and 905

ANNUAL EXPENDITURE BUDGET

Proposed and Adopted Budgets

Districts are required to prepare their annual expenditure budgets and electronically submit them on the forms the Arizona Department of Education (ADE) and the Arizona Auditor General prescribe. The **budget packet** includes all required forms and detailed instructions, including submission and publication requirements. The budget packet is issued annually to include legislative and other changes. A.R.S. §§15-903 and 15-905

By July 5 each year, districts must prepare, submit, and publish a proposed expenditure budget and budget summary. The district governing board must publish a 10-day notice and hold a public hearing to present the proposed expenditure budget to the public followed by a separate board meeting to adopt the expenditure budget. At the public budget adoption meeting, the governing board may make deductions from the expenditure budget as it deems necessary but must not make additions to the proposed expenditure budget for the Maintenance and Operation (M&O) or Unrestricted Capital Outlay Fund. The adopted expenditure budget must not exceed the general budget limit and unrestricted capital budget limit. By July 15, the governing board must adopt the budget and submit it to ADE by July 18. The District must keep the proposed and adopted budget and summary on file and make them available to the public upon request. See the expenditure budget packet submission and publication instructions for more specific hearing and publication requirements, including truth-in-taxation requirements. A.R.S. §15-905

Budget Override Election

If the district's proposed expenditure budget will exceed the aggregate budget limit for the budget year, the governing board must hold an override election as described in A.R.S. §15-481. If the voters do not approve the budget override, the governing board must prepare and adopt an alternate budget that does not exceed the aggregate budget limit.

Budget Revisions

The ADE must review the adopted expenditure budget and notify district governing boards on or before October 30 if their budget is in excess of the general budget limit or the unrestricted capital budget limit. Governing boards that receive excess budgeted expenditure notices must revise their expenditure budgets to not exceed these limits by December 15. A.R.S. §15-905(E)

Districts may revise their adopted expenditure budget during the fiscal year based on changes in current conditions. Districts may need to reallocate resources and spending within or across budget units (funds or programs) to reflect current conditions. Districts should document procedures for initiating the budget revisions and obtain governing board approval of those procedures.

Districts must adjust the general budget limit and adopted expenditure budget by May 15 of the budget year if the district has overestimated the amount of revenue from certain sources, such as State equalization assistance, based on actual revenue amounts for the current year.

See the expenditure budget packet for budget revision instructions, deadlines, and submission and publication requirements.

Prior-Year Overexpenditure

A district must reduce its budget for any prior year's overexpenditures or portion of the prior year's overexpenditure as approved by ADE in accordance with A.R.S. §15-905(M).

BUDGET CONTROL

Arizona school districts must use budget control for budget-controlled funds. The principal goal of budget control is to ensure that actual expenditures do not exceed budgeted expenditures. There are 2 distinct phases of budget control. Preliminary control is established when the budget is adopted. The adopted budget establishes the basis for all transactions throughout the year. Districts should exercise subsequent control throughout the fiscal year by using daily budget control, budget reports, budget revisions, and a year-end analysis of budget performance.

Daily Budget Control

Districts should maintain budget control on a daily basis to ensure that actual expenditures do not exceed budget limits. Districts can accomplish this by ensuring adequate budget capacity is available before approving any additional spending. See the **Expenditures section** for procedures.

Budget Reports

Districts should use budget reports to continuously monitor budget capacity and performance. Districts should prepare budget reports comparing actual results to budgeted amounts at least monthly, and the heads of the individual budget units should review them on a timely basis. District management should prepare a report of operations and variance analysis monthly or at least quarterly. Districts should prepare periodic budget reports including the most recently adopted budget's total authorized expenditures, current month expenditures, year-to-date expenditures, encumbrances, and unencumbered balances. The level of detail presented in the reports should be dependent on each district's specific management needs. Districts may use periodic budget reports to monitor activity at any level from fund to unit code. In conjunction with periodic budget monitoring, districts should continuously review the budget estimates and current conditions to determine whether a reallocation of resources will be necessary.

Budget Analysis

Following the close of the fiscal year, district administrators should further analyze budget performance. Districts should compare final budgeted and actual expenditures at year-end to assist in future planning and budgeting. Budget performance analysis may also include examination of budget revisions to assess their impact on current and future budget years.

CONTENTS

Topic	Page
INTRODUCTION	**1**
Principles of Fund Accounting	**1**
Financial Statements	**3**
GOVERNMENTAL FUNDS	**4**
Fund Types	**4**
Revenues, Expenditures, and Other Financing Sources (Uses)	**8**
Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Fund Balances	**9**
PROPRIETARY FUNDS	**10**
Fund Types	**10**
Revenues, Expenses, and Other Sources (Uses)	**10**
Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position	**11**
FIDUCIARY FUNDS	**12**
Fund Types	**12**
Additions and Deductions	**12**
Assets, Liabilities, and Net Position	**13**

INTRODUCTION

For proper accounting and financial reporting, districts must account for their financial position and results of operations in accordance with generally accepted accounting principles applicable to governmental units, which requires using a fund accounting system. Fund accounting systems provide the means to separate financial resources into funds to determine compliance with finance-related legal, contractual, or other restrictive requirements; and to aid management by separating transactions related to certain restrictions and specific district functions or activities.

To avoid undue complexity, inflexibility, and inefficient financial management in accounting and reporting, districts should establish only the minimum number of funds necessary for legal and operating requirements.

PRINCIPLES OF FUND ACCOUNTING

Funds

A fund is a self-balancing set of accounts recording cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are separated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Although each fund has separate accounts, funds that have similar characteristics are combined into broad fund categories. The 3 fund categories are governmental, proprietary, and fiduciary.

Governmental Funds—These funds account for most of a district's financial resources based on the purposes for which these resources may or must be used. Governmental funds are classified into 5 fund types: general, special revenue, capital projects, debt service, and permanent funds.

Proprietary Funds—These funds account for a district's ongoing activities that are financed and operated in a manner similar to private business enterprises. Proprietary funds are generally self-sustaining with user charges as the primary source of revenues. Proprietary funds are classified into 2 fund types: enterprise and internal service funds.

Fiduciary Funds—These funds account for a district's fiduciary activities. Fiduciary funds are classified into 4 fund types: pension (and other employee benefit) trust, investment trust, private-purpose trust, and custodial funds.

Measurement Focus

Measurement focus is used to describe the types of transactions and events that are reported in a fund's operating statement.

Governmental funds are accounted for using the current financial resources measurement focus. The emphasis of this measurement focus and these funds' operating statements is

on transactions or events of the period that have increased or decreased the resources available for spending in the near future.

Proprietary and fiduciary funds are accounted for using the economic resources measurement focus. The emphasis of this measurement focus is on transactions and events that have increased or decreased total economic resources for the period. Consequently, the operating statements include all transactions that increase or decrease net assets.

Basis of Accounting

Basis of accounting refers to when changes in a fund's resources are recognized in the accounting records and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied. Districts should use either the modified accrual or accrual basis of accounting, as appropriate.

Modified Accrual Basis—Districts should account for governmental funds on the modified accrual basis. Under this basis of accounting, districts recognize increases and decreases in financial resources only to the extent that they reflect near-term inflows or outflows of cash. Consequently, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Revenue is considered available when it is collectible within the current period or during the encumbrance period thereafter. If a revenue is not considered available in the current period, districts should report the revenue as a deferred inflow of resources until the revenue becomes available. If a revenue is received but has not been earned, districts should report the revenue as a liability until the revenue is earned.

Revenues that are generally susceptible to accrual prior to receipt are tuition, interest on investments, property taxes, and intergovernmental grants and aid. Food service and auxiliary operations sales and miscellaneous revenues are not susceptible to accrual because they are generally not measurable until received in cash.

Expenditures are recognized when the related fund liabilities are incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized when due. These expenditures are recognized when due because it is only then that they are generally liquidated with expendable available financial resources. However, districts may record principal and interest payments on long-term debt due early in the following fiscal year as expenditures in the current fiscal year if debt service fund resources are available for the payments.

Accrual Basis—Districts should account for proprietary and fiduciary funds on the accrual basis. Under this basis of accounting, districts recognize increases and decreases in economic resources as soon as the underlying transaction or event occurs. Consequently, revenues are recognized when they are earned, and expenses are recognized as soon as a liability is incurred, regardless of the timing of the related cash inflows and outflows.

FINANCIAL STATEMENTS

For a description of the basic financial statements required by generally accepted accounting principles for the governmental, proprietary, and fiduciary funds, see the **Financial Reporting section**.

GOVERNMENTAL FUNDS

Governmental funds are those funds through which most governmental functions are typically financed. Districts should account for governmental funds using the current financial resources measurement focus and the modified accrual basis of accounting.

Governmental funds are classified by fund type based primarily on the extent to which the government is constrained by the specific purposes for which amounts in those funds can be spent. Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, provides guidance on classifying and reporting fund types for the governmental funds. Governmental funds consist of 5 fund types: general, special revenue, capital projects, debt service, and permanent funds. Some funds Arizona Revised Statutes (A.R.S.) prescribe may be classified in multiple fund types under GASB Statement No. 54 depending on the fund resources' specific restrictions, commitments, and assignments.

Districts need to consider whether revenues are restricted, committed, or assigned when determining the appropriate fund type for such revenues. The **Chart of Accounts section** describes restricted, committed, and assigned in the governmental fund balance reporting classifications. For special revenue funds, the restricted or committed revenue must be a substantial portion of the fund's inflows. Inflows include revenues and other financing sources. GASB has not formally defined "substantial portion"; however, indications are that a substantial portion would be more than a material amount but does not necessarily mean at least a majority of the total inflows of all financial resources for the fund.

Changes to the statutory restrictions applicable to a fund may also occur that could change the fund's type. As such, districts should evaluate these funds each year to determine the appropriate fund type for that year.

FUND TYPES

General Fund

The general fund accounts for and reports all financial resources of a district except those required to be accounted for and reported in another fund. A district's general fund for accounting and budgeting purposes may be different from the general fund for financial statement reporting purposes.

For accounting and budgeting purposes, the general fund is described as the **Maintenance and Operation (M&O) Fund** by A.R.S. and may be separated into 7 programs titled regular education, special education, pupil transportation, desegregation, dropout prevention, joint career and technical education and vocational education center, and K-3 reading program.

When districts prepare audited financial statements, the general fund includes the M&O Fund and any other fund used for accounting or budgeting purposes that does not meet the definition of another governmental fund type. The following funds **should** be included in the general fund for financial statement reporting purposes:

- Maintenance and Operation
- Indirect Costs
- School Opening

In addition, districts need to analyze the following funds to determine if they should include them in the general fund for financial statement reporting purposes:

- Advertisement
- Auxiliary Operations
- Condemnation
- Energy and Water Savings
- Federal Projects
- Gifts and Donations
- Insurance Proceeds
- Litigation Recovery
- School Plant
- State Projects
- Teacherage
- Unrestricted Capital Outlay

Specific information on what districts should consider in analyzing the above funds is included under the other fund types discussed below.

Districts should not record the **Unemployment Insurance Fund** as a separate fund for financial statement reporting purposes. Instead, districts should eliminate interfund revenues and expenditures and **should** allocate any remaining revenues and balance sheet amounts to the funds that contributed revenues to the fund. Alternatively, if it would not materially misstate the financial statements, the remaining revenues and balance sheet amounts **may** be included in the general fund. Districts should not record these adjustments for financial statement reporting purposes in their accounting records.

If the general fund is different for budgeting than for financial reporting purposes, the budget to actual statement/schedule included with a district's audited financial statements should include only the M&O Fund in the general fund. Districts will need to include a reconciliation of the general fund activity as reported in the budget comparison statement/schedule to the general fund activity reported in the statement of revenues, expenditures, and changes in fund balance.

Special Revenue Funds

Special revenue funds account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt service or capital projects. Restricted revenue sources can be spent only for the specific purposes stipulated by the Arizona Constitution, external resource providers, or through enabling legislation. A district governing board may commit or assign, or a governing board delegated body/official may assign, unrestricted revenues. The restricted or committed revenue must be a substantial portion of the fund's inflows.

Examples of funds that **should** be classified and reported as a special revenue fund for financial statement reporting purposes include the following:

- Arizona Industry Credentials Incentive
- Career and Technical Education Projects
- Career Technical Education
- Civic Center
- Classroom Site
- Community School
- Compensatory Instruction
- County, City, and Town Grants
- English Language Learner
- Extracurricular Activities Fees Tax Credit
- Fingerprint
- Food Service
- Grants and Gifts to Teachers
- Instructional Improvement
- Insurance Refund
- Student Activities
- Textbooks

In addition, districts **could** also classify and report the following funds as a special revenue fund for financial statement reporting purposes.

Advertisement—If the governing board commits specific revenues of the fund for purposes other than capital purposes or debt service and those revenues are a substantial portion of the fund's inflows, districts **may** report the fund as a special revenue fund. If the fund's resources are committed or assigned for capital purposes or debt service, districts should not report the fund as a special revenue fund but **may** report it as a capital projects or debt service fund, as applicable. Otherwise districts **should** include the fund in the general fund.

Auxiliary Operations and **Gifts and Donations**—Donors may restrict some revenues of these funds while the governing board may commit other revenues. If committed revenues are not for capital purposes or debt service and restricted and committed revenues are a substantial portion of the fund's inflows, districts **may** report the fund as a special revenue fund. Otherwise districts **should** include the fund in the general fund.

Litigation Recovery—If none of the revenues of the fund are restricted to replacing or repairing school buildings or other school property, districts **may** report the fund as a special revenue fund. If all revenues are restricted to replacing or repairing school buildings or other school property, districts **should** determine the fund's primary use (capital purposes or debt service) and report the fund as a capital projects or debt service fund, as applicable. If the fund includes some revenues that are restricted to replacing and repairing school buildings or other school property and some revenues that are not, districts **should** include the fund in the general fund.

Federal and State Projects—Districts should evaluate each federal and State project fund to determine whether the federal or State revenues are restricted, committed, or assigned. For most of the federal and State project funds specifically listed in the **Chart of Accounts section** the grantor restricts the revenues. However, some of the funds such as **Medicaid Reimbursement, National Forest Fees, Taylor Grazing Fees,** and **Impact Aid** include unrestricted revenues. Similarly, revenues of other federal and State projects not listed in the Chart of Accounts may also be unrestricted. A district may commit or assign unrestricted

revenues. Districts should report federal and State projects funds as follows:

- If the revenues are restricted or committed to expenditures for specific purposes other than capital projects or debt service, and restricted and committed revenues are a substantial portion of the fund's inflows, districts **should** report the fund as a special revenue fund.
- If the revenues are restricted, committed, or assigned to capital projects or debt service, districts should not report the fund as a special revenue fund, but **may** report it as a capital projects or debt service fund, as applicable.
- All other funds **should** be included in the general fund

Teacherage—Revenues of the fund are restricted to providing employee housing. If the governing board has not specifically committed these revenues for capital purposes or debt service, districts **may** report the fund as a special revenue fund. However, if all revenues are committed for capital purposes or debt service, districts **may** report the fund as a capital projects or debt service fund, as applicable. If the fund includes some revenues that are committed to capital purposes or debt service and some that are not, the fund **should** be included in the general fund.

Capital Projects Funds

Capital projects funds account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Examples of funds that districts **should** classify and report as a capital projects fund for financial statement reporting purposes include the following:

- Adjacent Ways
- Bond Building
- Building Renewal Grant
- Emergency Deficiencies Correction
- Federal Impact Aid (Construction)
- Gifts and Donations—Capital
- Impact Aid Revenue Bond Building
- New School Facilities

In addition, the following funds **could** also be classified and reported as capital project funds for financial statement reporting purposes.

Condemnation—If the fund includes only proceeds from right-of-way settlements, which districts may use only for capital purposes, districts **should** report it as a capital projects fund. However, if the fund also includes proceeds from sales by condemnation or threat of condemnation, which are restricted for capital purposes and debt service, districts should determine whether the fund is primarily used for capital purposes or debt service and report it as a capital projects or debt service fund, as applicable. Alternatively, districts **may** include the fund in the general fund.

Energy and Water Savings, Insurance Proceeds, and Unrestricted Capital Outlay—Revenues of these funds are restricted for capital purposes and debt service. Districts

should determine whether each fund is primarily used for capital purposes or debt service and report it as a capital projects or debt service fund, as applicable. Alternatively, districts **may** include these funds in the general fund.

School Plant—If resources of the school plant fund are committed or assigned for maintenance and operation, the fund **should** be included in the general fund. If resources of the school plant fund are committed or assigned for capital projects and debt service, districts **should** determine whether the fund will be used primarily for capital purposes or debt service based on existing commitments and assignments of the fund's resources and report the fund as a capital projects or debt service fund, as applicable. Alternatively, districts **may** include the fund in the general fund.

Debt Service Funds

Debt service funds account for and report financial resources that are restricted, committed, or assigned to expenditures for principal and interest. Examples of funds that **should** be classified and reported as a debt service fund for financial statement reporting purposes include the following:

- Debt Service
- Impact Aid Revenue Bond Debt Service

Districts could also report the Condemnation, Insurance Proceeds, School Plant, and Unrestricted Capital Outlay Funds as Debt Service Funds as discussed above.

Permanent Funds

Permanent funds account for and report resources that are restricted to the extent that districts may use only earnings, and not principal, for purposes that support the district's programs.

REVENUES, EXPENDITURES, AND OTHER FINANCING SOURCES (USES)

Governmental fund revenues include tuition, interest on investments, property taxes, intergovernmental grants and aid, food service sales, auxiliary operations sales, gifts and donations, and other miscellaneous revenues. Other financing sources include proceeds from the issuance of long-term debt and fund transfers-in.

Governmental fund expenditures include salaries and benefits, supplies, purchased professional and technical services, purchased property services, other purchased services, other miscellaneous charges, and principal and interest payments on long-term debt. Expenditures may also include acquisition or construction costs for land, buildings, vehicles, furniture and equipment, land and building improvements, and principal and interest payments on intangible assets, such as right-to-use lease and subscription assets. Other financing uses include fund transfers-out.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES

Governmental fund assets include cash, investments, receivables, supplies inventory, prepaid items, and amounts due from other funds and other governmental entities. Receivables may include property taxes receivable, accounts receivable, interest receivable, and leases receivable.

Governmental funds should only report deferred outflows of resources for those items designed by GASB. Currently, there are no deferred outflows of resources districts should report in governmental funds.

Governmental fund liabilities include accounts payable, accrued payroll, employee benefits, contracts payable, interest payable, tax anticipation notes payable, claims and judgments, deposits held for others, and amounts due to other funds and other governmental entities. Other liabilities include unearned revenues, such as grants, and the current portions of financed purchase agreements, leases, compensated absences, and long-term debt and other obligations.

Governmental fund deferred inflows of resources include revenues that are measurable but not available in the current period, such as those related to property taxes and lease agreements.

The **Chart of Accounts section** classifies governmental fund balances as nonspendable, restricted, committed, assigned, or unassigned and includes descriptions of these classifications

PROPRIETARY FUNDS

Proprietary funds account for a district's ongoing activities that are financed and operated in a manner similar to private business enterprises. Proprietary funds are generally self-sustaining (i.e., the primary source of revenues is user charges) and consist of 2 fund types: enterprise and internal service funds.

Districts should account for proprietary funds using the economic resources measurement focus and the accrual basis of accounting.

FUND TYPES

Enterprise Funds

Enterprise funds account for activities that provide goods or services to external users for a fee. Districts are required to use enterprise funds to account for any activity whose principal revenue sources meet any of the following criteria: (1) debt backed solely by revenues from fees and charges (thus, not debt that is backed by the full faith and credit of a district); (2) legal requirement to recover costs through fees and charges; (3) policy decision of the governing board or management to recover the costs of providing services through fees or charges. Districts are permitted to account for the Food Service and Auxiliary Operations Funds as enterprise funds, but accounting for them as governmental funds is recommended.

Internal Service Funds

Internal service funds account for activities that provide goods or services to other funds, departments, component units, or to other governmental entities on a cost-reimbursement basis. The use of an internal service fund is appropriate only for activities in which a district is the predominant participant in the activity. Otherwise, districts should report the activity as an enterprise fund. Examples of internal service funds are activities such as central data processing, central printing and duplicating, and self-insurance. District Services Funds established in accordance with A.R.S. §15-1108 should also be accounted for as Internal Service Funds.

REVENUES, EXPENSES, AND OTHER SOURCES (USES)

Enterprise and internal service funds revenues include operating and nonoperating revenues. Operating revenues include charges to the public (e.g., students and faculty), schools, departments, or other governmental entities for goods and services, and miscellaneous revenues. Nonoperating revenues include interest on investments, intergovernmental revenues other than charges for goods and services, and gains on disposal of capital assets. Other sources include capital contributions, special and extraordinary items, and fund transfers-in.

Enterprise and internal service funds expenses include operating and nonoperating expenses. Operating expenses may include supplies and materials, salaries and benefits, administrative costs, repairs and maintenance, utilities, and depreciation. (All depreciable

property of enterprise and internal service funds should be depreciated. See the **Property Control section**. Nonoperating expenses include interest expenses and losses on disposal of capital assets. Other uses include special and extraordinary items and fund transfers-out.

Most transactions between an internal service fund and other district funds are treated as quasi-external transactions, not transfers, for proper budgetary control. Accordingly, an internal service fund (e.g., a print shop) would record expenses for the cost of providing the goods or services (e.g., purchase of paper, ink, etc.) and a revenue for the amount charged and either an interfund or intergovernmental receivable. When goods or services are provided internally to a governmental fund (e.g., M&O Fund), the governmental fund would record an expenditure and interfund payable (due to other fund) for the goods or services. Districts' internal service funds cannot charge a grant for services provided internally, without an Arizona Department of Education approved cost allocation plan.

ASSETS, DEFERRED OUTFLOWS OF RESOURCES, LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION

Enterprise and internal service fund assets may include cash, investments, receivables, inventories, prepaid items, and capital assets. Receivables may include accounts and interest receivable and amounts due from other funds and other governmental entities.

Enterprise and internal service fund deferred outflows of resources and deferred inflows of resources may include the difference between the reacquisition price and the net carrying amount of debt for current and advance refundings resulting in defeasance of debt.

Enterprise and internal service fund liabilities may include accounts payable, contracts payable, accrued payroll, employee benefits, compensated absences, claims and judgments, and amounts due to other funds and other governmental entities. Other liabilities may also include unearned revenues and long-term liabilities such as leases and financed purchase agreements payable.

Enterprise and internal service fund net positions are separated into 3 classifications: net investment in capital assets, restricted, and unrestricted. See the **Chart of Accounts section**, for a description of these classifications.

FIDUCIARY FUNDS

Fiduciary funds account for a district's fiduciary activities. There are 4 types of fiduciary funds: pension (and other employee benefit) trust funds, investment trust funds, private-purpose trust funds, and custodial funds. Fiduciary funds are determined based on many factors, including whether the fund is a component unit, pension and OPEB arrangements, a government's control of the assets, and the sources and characteristics of the assets.

Districts should account for fiduciary funds using the economic resources measurement focus and the accrual basis of accounting.

FUND TYPES

Pension (and other employee benefit) Trust Funds

These funds account for resources that are held in a trust for members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans, or other benefit plans. Typically, these funds are used to account for local pension and other employee benefit trusts that a district provides in lieu of or in addition to the State retirement system. (Districts should not use pension trust funds to account for contributions to a multiple-employer public employee retirement system such as the Arizona State Retirement System; districts should report such contributions in the funds where the costs or employee deductions occur.)

Investment Trust Funds

These funds account for the external portion (i.e., the portion that does not belong to a district) of investment pools a district operates that are held in trust.

Private-Purpose Trust Funds

These funds account for other trust arrangements under which the principal and income benefit individuals, private organizations, or other governments.

Custodial Funds

These funds account for fiduciary activities not held in a trust.

ADDITIONS AND DEDUCTIONS

Fiduciary fund additions include investment income, employee and employer contributions, gifts, contributions, bequests, endowments, and donations.

Fiduciary fund deductions are generally specified in the trust or other agreement and may include administrative expenses, such as salaries, wages, employee benefits, retirement benefits, and refunds of contributions.

ASSETS, LIABILITIES, AND NET POSITION

Fiduciary fund assets may include cash, investments, and interest and dividends receivable, and liabilities may include accounts payable, amounts due to other governments or others, and long-term liabilities. Investment and private-purpose trust funds do not have liabilities. Net position in the trust and custodial funds may identify what the fund is restricted for, such as pool participants or individuals, organizations, and other governments.

An effective accounting system is essential to provide control and accountability over school district assets and accurate and timely financial information to stakeholders. The Legislature and State agencies use district financial information to make education policy decisions and ensure compliance with legal and contractual provisions. The governing board and district management use financial information to develop overall policies and procedures, assess the district's financial position and the efficiency and effectiveness of district operations, budget for operating and capital expenditures, and project future financing requirements. Investors and creditors use information about available and probable financial resources, actual and contingent liabilities, and the district's overall financial position to evaluate the district's ability to meet debt service obligations. The public uses district financial information to determine how well the district is meeting its stewardship responsibilities.

An effective accounting system can also help safeguard district assets from fraud, theft, or misuse. Accounting system policies formally documented and adopted by the governing board and written procedures developed to enforce and uphold the governing board's adopted policies, should provide separation of responsibilities, adequate internal checks and balances, and sufficient records to support financial transactions.

Responsibilities should be assigned to specific departments, if applicable, and adequately separated within departments so that one individual does not have complete authority over an entire financial transaction or process. Districts should also periodically rotate responsibilities among employees when practical and require employees who process financial transactions to take leave time and have another employee perform their responsibilities. If adequate separation of responsibilities is not possible because of a district's limited staff size, district management should establish and document additional supervisory review procedures at appropriate points of each process to compensate for employees performing more than one of the responsibilities within a process.

The policies, procedures, sample forms, and recordkeeping methods described throughout the Accounting Procedures section provide an effective accounting system and control environment for districts. Specific controls should be tailored to each district's needs and alternative procedures may be used if they provide at least the same level of internal control. See the **Information Technology section** for information regarding general and application controls for automated systems.

CONTENTS

Topic	Page
INTRODUCTION	1
DOUBLE-ENTRY ACCOUNTING	1
BASIS OF ACCOUNTING	2
SOURCE DOCUMENTS	2
JOURNALS	2
Journal Entry	2
General Journal	3
Registers	3
LEDGERS	3
General Ledger	3
Subsidiary Ledger	4
Trial Balance	4
ENCUMBRANCE ACCOUNTING	4
RECONCILIATIONS	5
Monthly Reconciliations	5
Reconciling Differences	6

INTRODUCTION

Accounting records and procedures comprise the accounting system through which a district identifies, assembles, analyzes, classifies, records, and summarizes its financial transactions and reports the district's financial position and results of operations. Accounting records include source documents, journals, registers, ledgers, and other supplementary records.

Internal controls over accounting records and accounting systems should be adequate to:

- Minimize errors and prevent fraud.
- Provide management with reliable financial information in conformity with generally accepted accounting principles on a timely basis.
- Ensure that all transactions are recorded in the appropriate accounts for the correct amounts and in the appropriate fiscal year.
- Ensure the required account code format, prescribed in the **Chart of Accounts section**, is used to code transactions in the accounting records.
- Assist the district in monitoring its legal compliance with spending within budgetary limits in budget-controlled funds and spending within available resources in cash-controlled funds.

Some districts share accounting system access with the county school superintendent (CSS) where the CSS maintains district financial transactions in the CSS' accounting system or the CSS has electronic access to the individual districts' accounting records. The district should ensure the CSS has limited access to and authorization to initiate transactions in accounting records to authorized individuals to help ensure the integrity of the accounting records and protect district information from unauthorized use. Districts approved to assume accounting responsibility as authorized by Arizona Revised Statutes (A.R.S.) §15-914.01 operate independently of the CSS and, therefore, maintain their own financial transactions and accounting records. In addition to this section, districts should follow the requirements for general and application controls for automated systems in the **Information Technology section**; and the retention schedules provided in the **Records Management section**.

DOUBLE-ENTRY ACCOUNTING

Districts should use a double-entry accounting system to properly record and report financial data.

In a double-entry accounting system, each transaction affects at least 2 accounts. Therefore, to maintain balanced accounts, the total amount of debits must equal the total amount of credits in any transaction.

A debit or credit will have a different effect on various accounts. A debit does not always indicate an increase in an account, and a credit does not always indicate a decrease. The chart on the following page shows the effect of a debit or credit in the accounts.

Account Type	Debit Effect	Credit Effect
Asset and Deferred Outflow	Increase	Decrease
Liability and Deferred Inflow	Decrease	Increase
Fund Balance	Decrease	Increase
Revenue	Decrease	Increase
Expenditure	Increase	Decrease

BASIS OF ACCOUNTING

Districts should use either the modified accrual or accrual basis of accounting, as appropriate, to record revenues, expenditures (expenses), and the related assets and liabilities, and to prepare financial reports. See the **Fund Accounting section**, for more information on the basis of accounting for each fund type.

SOURCE DOCUMENTS

Source documents are used to initiate accounting transactions and must be retained to support each entry recorded in the accounting records. These documents may be in several forms, including hard copy, scanned documents, or an electronic file. Examples of revenue source documents include sequentially numbered cash receipt forms, online payment reports, validated treasurer's receipts, cash register tapes, and validated bank deposit receipts. Examples of expenditure (expense) source documents include requisitions, purchase orders, receiving reports, and vendor invoices.

When retaining a scanned document, it is critical that all the detail and supporting documentation is made part of the electronic file, including all signatures and approvals, line items, details, and attachments.

JOURNALS

A journal is a manual or electronic file where current transactions are originally entered. Journals provide a chronologically detailed record of daily financial transactions and support balances in the general ledger accounts.

Journal Entry

Most journal entries in district accounting records are automatically generated when revenue and expenditure information is entered into the accounting system from source documents described above. Adjusting journal entries are used to adjust account balances such as noncash transactions and error corrections. Districts should maintain adequate separation of responsibilities for initiating, approving, and recording journal entries so that an employee does not perform the whole process.

District management should review and approve journal entries before they are recorded in the accounting records.

Each journal entry should be sequentially numbered and dated and identify the account codes to be debited and credited in accordance with the **Chart of Accounts section**. Each entry should also contain adequate explanations, attachments, or references to source documentation to support the entry. A journal entry form usually serves as the source document for adjusting journal entries. The preparer and reviewer should document review of each entry's support and the approval to post the entry by manual or electronic signature or initials and date. After approval, the entry should be posted to the accounting records and documentation retained to support the entry.

General Journal

Standard monthly journal entries, adjusting entries, and year-end closing and reversing entries are recorded in the general journal and are then posted to the general ledger accounts. The following sample entry in the general journal is to correct an error in the accounting records.

General Journal				Page 2
Date 20XX	Account Number	Account Description	Amount	
			Debit	Credit
4/30	001-100-2600-6431-500	Nontechnology-Related Repairs and Maintenance	$7,000	
	001-100-4000-6450-500	Construction Services		$7,000
To adjust the accounting records for a nontechnology-related repairs and maintenance expenditure incorrectly recorded as construction services.				

Registers

Registers are similar to journals and are used to record the consecutive entry of a certain class of events, documents, or transactions, with proper notation of all the required detail. Warrant and payroll registers are described in the **Expenditures** and **Payroll sections**.

LEDGERS

General Ledger

The general ledger summarizes the financial transactions of all accounts and is used to prepare trial balances and financial reports. Districts should organize the ledger according to the **Chart of Accounts section**. The general ledger should contain the following accounts:

1. Assets and Deferred Outflows of Resources, Liabilities and Deferred Inflows of Resources, and Fund Balance/Fund Net Position—These accounts should be established to record assets, liabilities, and the difference between them. The balances in these accounts fluctuate during the year with increases and decreases in individual assets and liabilities,

but the accounts are not closed at the end of each fiscal year. The fund balance/net position accounts are used to account for the difference between assets and liabilities.

2. Revenues, Other Financing Sources, Expenditures (Expenses), and Other Financing Uses—These accounts are opened at the beginning of each fiscal year and are used to record the activity of a given fund for the year. These accounts are closed to fund balance/fund net position accounts at the end of each fiscal year.

At the beginning of the fiscal year, after the budget is approved, the district should follow these procedures.

1. A general ledger account should be established for each major source of revenues, expenditures (expenses), other financing sources and uses, and transfers in and out.
2. Districts should prepare subsidiary ledgers when more detailed information is desired.
3. Districts should enter each budgeted amount for revenues, expenditures (expenses), other financing sources and uses, and transfers in the appropriate general ledger account.

Subsidiary Ledger

A subsidiary ledger is a detailed accounting record that provides more information about specific accounts within the general ledger and the sum of which should equal the balance in the related general ledger control account. Examples of funds with activity that districts need to or may choose to track in a subsidiary ledger are student activities to separate club amounts, auxiliary operations to separate extracurricular activities fees tax credit monies and other amounts, and classroom site to separate amounts planned for various allowed purposes.

Trial Balance

A trial balance is a list of the account balances in the general ledger and should be prepared monthly to ensure that the general ledger is in balance. The general ledger is in balance if the total of the debit and credit columns are equal. Districts should prepare a trial balance for each fund at the end of each fiscal year to prepare the annual financial report and financial statements.

ENCUMBRANCE ACCOUNTING

The purpose of encumbrance accounting is to reserve budget capacity or cash balance that has been committed by issuance of purchase orders, contracts, or other commitments. At the beginning of the fiscal year, districts should enter the new year’s budgeted expenditures in each budget-controlled fund and roll-over cash balances of each cash-controlled fund to establish beginning unencumbered budget and cash balances. During the year, districts should determine whether unencumbered budget or cash balances, as applicable, are sufficient to fund purchases before approval. Once purchases are approved, and prior to payment, districts should reduce unencumbered balances for approved purchase amounts.

During the 60-day encumbrance period following June 30, districts should maintain separate accounting records for each fund simultaneously for the prior and current fiscal years. Districts

should record revenues and expenditures (expenses) of the prior fiscal year (revenue earned or goods/services received by June 30) in the prior fiscal year's records, and revenues and expenditures (expenses) of the current fiscal year in the new fiscal year's records.

At the end of the 60-day encumbrance period, the prior fiscal year's revenue and expenditure accounts should be closed to fund balance and the accounting records should be closed so that no more changes can be made. The final fund balance from the prior year should be brought forward as beginning fund balance for the current year.

RECONCILIATIONS

Monthly Reconciliations

Districts are responsible for ensuring their cash balances, revenues, expenditures, and transfers, by fund, are reconciled to the records maintained by their county's school superintendent and treasurer. The monthly reconciliation process should be completed by the end of the following month.

CSSs maintain separate records or have shared accounting system access to districts' records of cash balances, revenues, and expenditures to comply with their statutory duties related to ensuring districts spend within their available budget capacity and cash resources in budget-controlled and cash-controlled funds, respectively. To help CSSs ensure they can accurately monitor districts' available budget capacity and cash resources, CSSs should reconcile their records of districts' revenues, expenditures, transfers, and cash balances, by fund, to the county treasurers' account activity at least monthly. If a CSS has not timely reconciled districts' records to county treasurer records, districts should directly reconcile their records to the county treasurer records to ensure cash balances are accurate.

As not all districts and counties share accounting system access and reconcile records in the same manner, the following describes the responsibilities for districts in different circumstances:

- Districts that share accounting system access with the CSS, should document and date a monthly review of the CSS' completed reconciliation to the county treasurer's balances and the district's review of any financial transactions, including reconciling adjustments, initiated by the CSS in the districts' records.
- Districts that do not share accounting system access with their CSS and that are not approved to assume accounting responsibility as authorized by A.R.S. §15-914.01, should document and date a monthly reconciliation to the CSS' separate district records after the CSS has reconciled to the treasurer's records.
- Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 operate independently of the CSS and, therefore, should document and date a monthly reconciliation directly to the county treasurer's records.

In all cases, the monthly reconciliation process involves examining district ending cash balances as impacted by the past month's revenues, expenditures, and transfers for each fund, agreeing those

cash balances to the county treasurer's account records, and documenting, investigating, and resolving any differences. Reconciliations are not considered complete until reconciling differences are resolved in the district's or county's records, as applicable.

At fiscal year-end, districts' reconciliations should be completed after all encumbrance transactions are recorded and no later than 30 days after the 60-day encumbrance period.

Reconciling Differences

Districts should research, resolve, and maintain documentation to support the resolution of all reconciling differences.

Revenue and cash receipt differences may occur due to the following:

1. Timing differences may result from revenues and other cash receipts being recorded by the CSS or county treasurer in 1 month that were either not recorded by the district or were recorded in another month. Examples of such timing differences include interest on investments, tax apportionments, and monies received from a line of credit.
2. Misclassifications of revenues may occur if the CSS or county treasurer posted revenues to an incorrect district or fund, or the district posted revenue to an incorrect fund.

Expenditure and disbursement differences may occur due to the following:

1. Interest the county treasurer paid on registered warrants that the district has not recorded.
2. Warrants that districts attempted to stop payment on were not included in district expenditures, but the warrant was paid by the county treasurer.
3. Debt service payments made by the county treasurer were not recorded by the district.
4. Principal and interest payments made by the county treasurer to repay a revolving line of credit were not recorded by the district.
5. Misclassifications of expenditures (expenses) due to the CSS or county treasurer posting spending to an incorrect district or fund, or if the district made a journal entry moving spending to another fund after the warrant was issued.

Other differences between the district, CSS, and county treasurer's records may occur due to the following:

1. Transfers or journal entries omitted or not correctly recorded by the CSS, county treasurer, or district.
2. Reconciling items from the previous month that were not recorded and corrected.
3. Clerical or mathematical errors.

Districts should notify the CSS or county treasurer of errors in the CSS' or county treasurer's records discovered during the reconciliation process by forwarding a copy of the district's correcting journal entries.

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	2
PROCEDURES	2
Revenues Received in Person	3
Revenues Received Online	16
Revenues Received Through the County	17
Sample Forms	
DISTRICT CHANGE FUND LOG	21
CHANGE FUND RECEIPT	22
SCHOOL CHANGE FUND LOG	23
RECEIPT BOOK LOG	24
TICKET LOG	25
REVENUE COLLECTION REPORT (RECEIPTS)	26
REVENUE COLLECTION REPORT (TICKETS)	27
REVENUE COLLECTION REPORT (MISCELLANEOUS)	28
REVENUE COLLECTION REPORT (INVENTORY)	29
FOOD SERVICE DAILY RECONCILIATION REPORT	30
DAILY CASH COLLECTIONS SUMMARY	31
DEPOSIT TRANSMITTAL	32
DEPOSIT TRANSMITTAL CONTROL LOG	33

INTRODUCTION

Revenues include all inflows of financial resources a district receives. Districts may receive revenues from local, county, State, and federal sources, either directly through in-person or online transactions or through the county school superintendent (CSS) or county treasurer. District revenues are either held on deposit with the county treasurer or in an authorized bank account with a financial institution. See the **Bank Accounts section** for policies and procedures for authorized bank accounts.

Revenues may include cash transactions such as currency and negotiable instruments, including drafts, checks, warrants, and money orders. Because of the relatively high risk associated with cash transactions, districts should establish and maintain effective policies and procedures to safeguard cash, prevent loss or misuse, provide prompt and intact depositing, and ensure accurate recording in a district's accounting records. Safeguards also need to be in place for currency on hand, such as change funds, cash received but not yet deposited, and balances on deposit with financial institutions and county treasurers. For all revenues, effective internal control not only helps safeguard monies, but can protect employees involved in handling those monies from accusations of misuse.

Internal controls over revenues should be adequate to:

- Minimize errors and safeguard district monies from loss, theft, and misuse.
- Ensure revenue processing responsibilities are adequately separated.
- Ensure revenues are recorded promptly in the appropriate accounts, for the correct amounts, and properly apportioned in the district's accounting records.
- Provide accurate financial information for district stakeholders.

Districts should tailor internal controls to their specific needs. The recommended controls described in this section are provided as examples of sound financial and administrative practices that districts can use in either automated or manual systems to ensure that evidence of review, verification, and approval is documented and retained. Districts may use other controls if they provide at least the same level of internal control. In addition to this section, districts should follow the requirements for the general and application controls for automated systems in the **Information Technology section**, and the retention schedules provided in the **Records Management section**. Districts approved to assume accounting responsibility as authorized by Arizona Revised Statutes (A.R.S.) §15-914.01 operate independently of the CSS and, therefore, maintain their own financial transactions and accounting records related to revenues.

POLICIES

District governing boards should establish written revenue policies and distribute them to all employees with cash-handling and revenue-related responsibilities. The district's cash-handling and revenues policies should, at a minimum, address the following to comply with statutory requirements and establish effective internal control over revenues:

1. Employees handling significant amounts of cash should be adequately bonded. See the **Bank Accounts section** for specific bonding requirements.
2. The governing board should approve the type(s) of online payment systems the district may use when collecting monies from outside sources such as bookstore receipts, gate receipts, student club fundraisers, and food service payments. The payment systems must have adequate controls to meet the requirements of this section and should only be deposited into district accounts.
3. Cash should be deposited daily, if significant, or at least weekly. The governing board should establish a specific threshold that constitutes a significant amount of cash that must be deposited daily when received.
4. If the governing board determines weekly cash deposits are not achievable because of its distance from the nearest banking location or that nominal amounts are being received and it is not financially advantageous to the district to make weekly deposits, the governing board may establish an alternative regular deposit schedule, clearly describing the reasons why the alternative schedule is necessary. The alternative deposit schedule must allow for compliance with policy #5 below.
5. Districts must deposit all revenues received with the county treasurer at least monthly, unless held in governing-board-authorized bank accounts. A.R.S. §15-341(19) and (20) (See the **Bank Accounts section** for authorized district bank account information.)
6. The governing board should establish disciplinary actions for the loss, theft, or misuse of district monies.

PROCEDURES

Districts should establish written procedures to enforce and uphold the governing board's adopted cash and revenues policies. Districts approved to assume accounting responsibility as authorized by Arizona Revised Statutes (A.R.S.) §15-914.01 may need to modify some of the following procedures related to interaction with the CSS and county treasurer to reflect the responsibilities they have taken or that are otherwise performed by a CSS. The district's procedures should, at a minimum, address the following to establish effective internal controls over revenues:

1. Districts should separate responsibilities between cash-handling, review/deposit, and recordkeeping functions. Small districts unable to adequately separate responsibilities due to insufficient staff size must establish and document additional supervisory review procedures for employees performing more than 1 of these responsibilities. The review procedures must provide adequate controls to reduce the risk of misreported or undeposited revenues. Districts

could consider training multiple employees to perform each procedure and periodically rotate those responsibilities. Adequate separation of responsibilities ensures that no single employee has exclusive control over a procedure.

2. In all locations where cash is received, cash should be counted and immediately safeguarded in a locked cash register, drawer, box, or cabinet. Cash not being deposited the same day as received should be secured in a safe or locked cabinet while awaiting deposit. Access to cash should be limited to only those employees who require access.
3. Evidence of receipt should be prepared for all revenues received.
4. Checks, warrants, drafts, and money orders should be restrictively endorsed “for deposit only” to the credit of the district immediately upon receipt.
5. All revenues collected from sales activities should be reconciled to items or services sold to ensure amounts collected are complete and intact. All other revenues collected should be reconciled to fees paid or other items paid for (e.g., fees paid, donation amount, etc.)
6. Retain evidence of all deposits made to the county treasurer or district’s financial institution.
7. Promptly record all revenue received in the district’s accounting records and classify transactions accurately in accordance with the **Chart of Accounts section**.

Revenues Received in Person

Districts may receive various types of revenues in person, such as tuition and fees for classes and community school activities; gifts and donations; extracurricular activities fees tax credits; food service sales; monies collected in connection with bookstore and athletic activities (i.e., auxiliary operations); monies raised in connection with student activities; and proceeds from the sale or lease of district property. Revenue received in person may include both cash and point-of-sale credit or debit card transactions. These types of transactions are more susceptible to loss, theft, or misuse than any other revenue a district receives and require a strong system of internal control. Therefore, the district must take measures to effectively safeguard and properly account for revenues received in person.

Separation of Responsibilities

Districts must ensure that no one person can have control over an entire financial transaction. At a minimum, districts must separate the following responsibilities to ensure adequate internal control over revenue collections:

- **Cash handling—**Receives cash and card payments, issues receipts, prepares cash collection documentation.
- **Review/deposit—**Distributes prenumbered cash receipt books, ticket logs, and cash collection documentation, reviews and approves receipt and collection documentation, and deposits revenues at the financial institution or county treasurer.
- **Recordkeeping—**Records transactions in the accounting records and reconciles bank accounts.

Small districts unable to adequately separate these responsibilities due to insufficient staff size must establish and document additional supervisory review for employees performing more than one of these responsibilities. The review procedures must provide adequate controls to reduce the risk of misreported or undeposited revenues. For example, if an employee with cash handling responsibilities also has recordkeeping responsibilities, a second individual who is not involved in cash handling or review/deposit, should review the bank reconciliation.

To further strengthen internal controls, districts could periodically rotate responsibilities among employees, when practical. Also, employees with cash-handling and revenue responsibilities should be required to take leave time during which another employee performs their responsibilities.

Safeguarding cash

Districts must safeguard cash at all times by holding it in a locked safe, cash register, cabinet, or drawer. This includes cash collections awaiting deposit, change funds, or auxiliary operations petty cash funds. Access to cash storage locations should be limited to only designated employees with oversight responsibilities. Cash storage locations should remain locked or secured except when cash is being accessed for bank deposit or distribution. Combinations, passwords, or keys distributed to employes should be logged and monitored. Districts should update combinations or passwords and collect keys when an employee leaves or changes job duties, or if security is compromised. Any unused keys should be stored in a secure location, and districts should document where the keys are stored and the employee who is responsible for them. Districts should verify that all keys are accounted for at least annually.

Safeguarding cash at the time and place of the initial receipt is essential. Checks, warrants, drafts, and money orders should be restrictively endorsed “for deposit only” to the credit of the district immediately upon receipt. Employees receiving cash should immediately count and secure the cash in a locked safe, cash register, cabinet, drawer, or cash box.

In addition, districts should safeguard cash by bonding employees who handle significant amounts of cash. Bonding insures the district against losses that may arise from employees’ potential mishandling or loss of cash. See the **Bank Accounts section** for specific account custodians that must be bonded.

Change funds

Change funds are cash provided to a cashier or club sponsor to make change for cash transactions. Due to the relatively high-risk of change funds being lost or stolen, districts should establish change fund controls that ensure accountability and safeguarding of change funds. District management should designate a change fund custodian for each change fund established. The change fund custodian should be a district employee and is responsible for overseeing the change fund distribution and return.

Establishing change funds

Change funds may only be established by a warrant or check payable to the designated change fund custodian from the applicable fund or bank account related to the activity that needs the

change fund (e.g., the Auxiliary Operations, Student Activities, or Food Service Funds or bank accounts). Change funds must never be created from clearing bank accounts or cash receipt collections awaiting deposit to ensure revenues are always recorded intact in the accounting records. Disbursements from change funds are not permitted. When a change fund is established, the amount of the change fund should be reclassified by adjusting journal entry in the accounting records from “Cash in Bank” to “Cash on Hand” within the applicable fund. Change funds should be returned to their original fund at the end of the school year or when they are no longer needed, and the amount of the change fund should be reclassified by adjusting journal entry in the accounting records from “Cash on Hand” to “Cash in Bank” within the applicable fund. Since neither a transfer nor an expenditure has been made when establishing or returning the change fund, none should be recorded.

Change fund documentation

District management should maintain a change fund log that records the establishment, assignment, and return of each change fund to and from individual school sites or the district office cashier. The log should identify the change fund custodian, school and activity, amount of each change fund, and the dates the change funds were issued and returned. The district representative issuing the change funds and change fund custodians should sign the log to acknowledge receipt and return of the change funds. See sample **District Change Fund Log**.

Throughout the year, each change fund custodian should document the distribution and return of change funds used for each sales activity or to individual cashiers that use change funds daily. See sample **Change Fund Receipt**. Alternatively, the change fund custodian may use a school change fund by activity (e.g., food service, auxiliary operations, or student activities). See sample **School Change Fund Log**.

The district representative who issued the change funds or their designee should periodically review and verify the change funds and related receipts or logs at each school site to ensure they are complete and accurate. At the end of the school year, or when a change fund is no longer needed, the change fund custodian and district representative should count the cash on hand, update the change fund log to reflect the returned amount, and sign the log to confirm the return of funds. Returned change funds should be deposited into the applicable bank account from which they were established, into a clearing account, or directly with the county treasurer.

Receiving revenue

It is important for school districts to have consistent receipting procedures to ensure all cash and revenue received are properly documented. Preparing and retaining evidence of receipt for each payment received enables the district to reconcile revenues collected to total documented sales, fees/donations collected, or other items paid for and detect discrepancies, reducing the risk of loss, theft, or misuse.

Revenue receipt types

The type of receipting method may vary depending on the type and volume of revenue collected. Because revenue is generated in different ways, no single receipt method works for every situation. Therefore, districts should select the most appropriate form of receipt documentation for each activity

that ensures all revenues received and sales made are accounted for. The receipt documentation examples below demonstrate sound financial practices for receipting. Districts may choose any of these example documentation types or they may use alternative receipting methods, provided those methods offer at least the same level of internal control:

- **Cash register or computer-system-generated receipts**— A cash register or computerized cash-receipting system sequentially records each transaction entered, including the payer, item/service sold, quantity sold, amount received, method of payment, and date. All cash, checks, and credit card payments must be entered into the system at the time they are received so that each transaction is properly documented and included in the system's audit trail. Cashiers should not have the ability to modify or delete transactions without supervisor approval. All edits, voids, and deletions should be reviewed by someone other than the cashier who processed the original transaction. At the end of an activity or day of sales, a cash register tape or system-generated transaction report should be produced—either electronically or in print—as support for total sales transactions. If the cashier is not automatically identified through the cash register or system login credentials, the individual entering the transactions should sign and date the register tape or system report to document the responsible cashier.
- **Prenumbered cash receipts**—If a cash register or computerized receipting system is not available, or when cash collections are infrequent, prenumbered handwritten cash receipts may be used to document payer, item/service sold, quantity sold, amount received, method of payment, and date. Receipts should be issued in triplicate, with 1 copy provided to the payer, 1 copy attached to the deposit, and 1 copy retained in the receipt book.

  Prenumbered receipt books require controls at both the district and school level. Unused receipt books should be stored in a secure location with limited access. The district office should maintain a log documenting receipt books issued, including the receipt number range, date of issuance, and the location and individual to which it was assigned. At each school site or district office, the designated receipt book custodian is responsible for safeguarding unused receipt books and maintaining a cash receipt book log. This log should document each time a cash receipt book is issued for an event or revenue-generating activity, including the number range, date issued, employee responsible for the event, and date the book is returned. See sample **Receipt Book Log**. Maintaining documentation of the receipt numbers used for each activity allows the school and district office to verify that all revenue collections returned are complete. The custodians should verify that all receipts in the number sequence are accounted for; investigate any missing, voided, or skipped receipt numbers; and document their review on the receipt book log. The custodian should periodically review the entire receipt book to ensure that the copies retained in the receipt book match the copies retained with the deposit.
- **Tickets**—Districts may issue prenumbered tickets as a receipting process when the price of each ticket is consistent. Tickets may be used for sporting events, food service sales, student club activities, or other activities where tickets are advantageous for tracking the quantity of items sold. Districts should implement controls over ticket inventory, storage,

issuance, and reconciliation. Districts may use uniquely identifiable tickets, such as by ticket color, for different priced items (e.g., student and adult admission to school events). At the beginning of each event or activity, staff should document the starting ticket number for each ticket type and the applicable ticket price. At the end of the activity, the ending ticket numbers and any unused, spoiled, or voided tickets must be recorded.

Prenumbered tickets require controls at both the district and school level. Ticket stock must be stored in a secure location with limited access. The district office should maintain a ticket log documenting ticket stock issued, including the ticket number range, date of issuance, and the location and individual to which it was assigned. At each school site or district office, the designated ticket custodian is responsible for safeguarding unused ticket stock and maintaining a ticket issuance log. This log should document each time a ticket batch is issued for an event or revenue-generating activity, including the ticket type, number range, date issued, the employee responsible for the event, and the date unused tickets are returned. See sample **Ticket Log**. Maintaining documentation of the ticket numbers used for each activity allows the school and district office to verify that all revenue collections returned are complete. The custodian should verify that all ticket numbers in the assigned range are accounted for by reviewing unused, sold, voided, and spoiled tickets; investigating any missing tickets; and documenting the review on the ticket log.

- **Meal cards**—Districts may issue meal cards to account for food service prepayments. Meal cards may be issued for students, student workers, adults, and adult workers. Districts participating in child nutrition programs administered by the Arizona Department of Education's (ADE) Child Nutrition Programs Office may issue separate meal cards or tickets for full price, reduced price, and free meals; however, the meal cards must be identical in appearance.

  Meal cards must be prenumbered or otherwise uniquely identifiable. The district or food service department should maintain a master inventory log of all meal cards. Unused cards must be stored in a secured location with limited access. Each school site should designate a meal card custodian responsible for maintaining an issuance log that records each card issued, including card number, recipient, date issued, amount paid, and outstanding meal balances remaining. Replacement cards must be documented, and original cards must be deactivated to prevent unauthorized use. The custodian must regularly reconcile active cards, unused cards, and redeemed cards to the issuance and master inventory log. The custodian must investigate and resolve any discrepancies and document the review on the log.

- **Inventory count**—Districts may document a count of items on hand before and after the sale to document sales if issuing receipts or tickets is not practical, such as items sold at the concession stand, student club sales, or other sales where items are bought in bulk and sold individually. Inventory must be stored in a secure location before and after each sale to prevent unauthorized access. Before each sale, a staff member other than the person collecting cash must conduct and document a beginning inventory count for each item offered for sale, including item description, quantity on hand, and sales price. At the end of

the activity, a staff member not involved in cash collection must conduct and document an ending inventory count for each item. All unsold inventory—including unused, damaged, or spoiled items—must be accounted for and documented. The number of items sold is calculated by comparing beginning and ending inventory counts. Sales amounts must then be calculated by multiplying units sold by the established sales price for each item. See sample **Revenue Collection Report (Inventory)**, Part I.

- **Check log**—When checks are received in the mail and there is no person to issue a receipt to, districts may document receipt using a check log. These logs work best when there are limited checks received by mail. Mail should be opened by 2 individuals or by 1 individual in the presence of a second observer, and all payments received through the mail must be logged at the time of opening. Each entry must include the date received, payer name, amount received, purpose of payment (if available), and the initials or signature of the employees recording and observing the entry.

When payments are made in person using a credit card machine or point-of-sale device, the machine may generate a generic receipt that confirms the payment was processed. However, this receipt may not document what the payment was for or provide the detailed information required for district receipt records. In such cases, the district should manually record each credit card payment using one of the district's approved cash-receipting methods described above. The credit card machine's receipt should be attached to or filed with the district's receipt documentation to provide support that the payment was processed by the card issuer. Credit card receipts should be reconciled along with the manually recorded receipts to total revenues collected at the end of each activity or day to ensure all electronic transactions were accurately documented and included in the revenue collection reports. Any discrepancies should be investigated, resolved, and documented. Additionally, any voided or refunded transactions should be reviewed for appropriateness.

Revenue collection reports

In addition to using a receipting method to document individual revenue transactions, districts must prepare a prenumbered revenue collection report in duplicate form with 1 copy attached to the deposit and 1 copy retained by the person who issues the reports for use. This report is used to document total revenues collected, total sales, and complete a reconciliation of total sales/receipts to revenues collected for each revenue-generating activity. Districts using electronic receipting methods should have the ability to prepare reports with the same information but do not need to print duplicate copies. All collection reports should include the following:

- Part I—Document the receipting method details such as inventory counts, the range of prenumbered tickets or cash receipts being used, total tickets or items sold, and the unit price to calculate total sales.
- Part II—Total cash collected, any change fund amount, and the net cash collected for deposit.
- Part III—A reconciliation of total sales to all revenue collected, including credit card sales, documenting and resolving any overages or shortages, and explaining gaps in ticket or receipt numbers, if applicable. For revenue collections not from a sales activity, the

revenues collected should be reconciled to total fees/donations collected or other items paid for. For food service sales, districts should track and reconcile the number of meals sold to the total cash collected, meal card redemptions, charged meals, and prepayments per day. See sample **Food Service Daily Reconciliation Report**.

- Signature of the preparer and the date the report was prepared.
- Signature of the school or district office designee that received the cash collections, change fund, revenue collection report, and receipt documentation, to confirm all revenue has been received and agrees to the supporting documentation.

A district or school office designee should issue prenumbered duplicate revenue collection reports to the individual responsible for each activity (e.g., cashier, club sponsor, etc.) prior to the event, with certain components prefilled such as the ticket range, prenumbered receipt range, and change fund amount issued. This step helps to ensure that all amounts and supporting documentation are properly returned after the activity is completed. All revenue collection reports should be reviewed periodically to ensure that all reports in the number sequence are accounted for. Any missing forms should be investigated. See sample **Revenue Collection Reports (receipts, tickets, miscellaneous, inventory)**. The sample forms may be modified for various receipt types but should always include the information described above.

Daily cash collections summary reports

At the end of each day, if only 1 cash-collection activity occurred, districts do not need to prepare a daily cash collection summary report and may move to the cash deposit preparation procedures. However, when multiple cash collections are made on the same day, districts should prepare a daily cash collection summary. This summary consolidates information from all revenue collection reports to ensure that all cash received is accounted for before deposit preparation. The daily cash collection summary report should include the following:

- Part I—Identification of cash collected and held for deposit for each individual activity including the revenue collection report number, the account to which the cash should be deposited, the activity description, and net cash collected from the activity for deposit.
- Part II—A total count of cash received from all activities on that day.
- Part III—A reconciliation of total net cash collections and the total cash count, documenting and resolving any overages or shortages, if applicable.
- Signature of the preparer and the date the report was prepared.
- Signature of the reviewer and the date the report was reviewed. See sample **Daily Cash Collections Summary Report**.

Sample revenue-collection procedures

The following suggested procedures and sample forms provide for the minimum separation of responsibilities for revenues received in person and assumes the district is issuing paper receipts and revenue collection reports. Procedures may be modified for electronic receipting methods used but must provide the same level of internal control. Throughout the following sample

procedures, Person 1 is responsible for reviewing/depositing responsibilities, Person 2 is responsible for cash-handling responsibilities, and Person 3 is responsible for recordkeeping responsibilities. Districts may involve additional employees to the procedures to increase the separation of responsibilities. In larger districts, additional steps may be required to issue change funds, prenumbered receipt books, and prenumbered tickets to individual school sites. As described above in revenue receipt types, the District should document the issuance of these items to the individual district or school office designees using a log signed by both the issuer and receiver. For smaller districts, the establishment of change funds and issuance of prenumbered receipt books or tickets should be documented and reviewed by at least 2 individuals.

Performed by	***Procedure***
Review procedures	
Person 1	1. Completes the headers and portions of Part I of a prenumbered revenue collection report (see sample **Revenue Collection Reports**) in duplicate, based on the receipting method to be used. Person 1 documents the activity and responsible party, change fund receipt and amount issued, and any receipt documentation issued (e.g., beginning and ending receipt form numbers, beginning cash register reading, beginning and ending ticket numbers, or beginning inventory).
	2. Completes the following, as applicable: a. Prenumbered change fund receipt (see sample **Change Fund Receipt**) or entry in a school change fund receipt log (see sample **Change Fund Receipt Log**). A copy of the change fund receipt should be retained until after the activity is completed and will be used in the reconciliation process. b. Ticket log (see sample **Ticket Log**). c. Receipt book log (see sample **Receipt Book Log**).
	3. Issues the revenue collection report, change fund, and tickets or receipt book (if applicable) to Person 2.

Performed by	*Procedure*
Cash-handling procedures	
Person 2	4. Verifies change fund amount and receipt documentation received. Signs the change fund receipt or log and the receipt book or tickets log (as applicable). This signature indicates that the person is taking responsibility for the change fund and receipt documentation received. This person should review the completed portions of the revenue collection report to ensure it agrees to what they received.
	5. Receives revenue and prepares receipt documentation. For each transaction, counts cash and inspects checks received for correct amounts and payees, and restrictively endorses checks, warrants, drafts, and money orders upon receipt. Secures revenue during the activity in a locked cash box or drawer.
	6. Completes the remaining portions of Part I and Part II of the revenue collection report.
	7. Completes Part III of the revenue collection report to reconcile revenues received to total documented sales, fees/donations collected, or other items paid for. Any differences should be investigated, resolved, and documented. Sign and date the revenue collection report.
	8. Secures cash in a cash register, safe, or locked drawer until further processing.
	9. Submits revenues received (including the change fund, if applicable), completed revenue collection report, receipt documentation (e.g., ending inventory counts, completed cash receipt forms, etc.), and any unused tickets and cash receipt forms, if applicable, to Person 1, who will be responsible for reviewing documentation and preparing the deposit.

Performed by	*Procedure*
Review procedures	
Person 1	10. Counts and verifies cash received from Person 2 and counts and verifies ending inventory, if applicable. Reviews the completed revenue collection report, receipt documentation, change fund amount, and unused receipts or tickets to ensure all amounts reported on the revenue collection report are accurate. Signs and dates the revenue collections report and provides the duplicate copy to Person 2. Note: This step must happen while Person 2 is still present.
	11. Complete the change fund return receipt (see sample **Change Fund Receipt**) or entry in a change fund log (page sample **Change Fund Log**) and receipt book or ticket log (see sample **Receipt Book Log** or sample **Ticket Log**) to acknowledge the return of the change funds and unused receipts or tickets at the end of the activity.
	12. Secures cash in a cash register, safe, or locked drawer until further processing.
End of day procedures (when more than 1 revenue collection report is received in a day)	
Person 1	13. Removes the cash collected from the cash register, safe, or locked drawer, and retrieves all revenue collection reports for the day from all activities.
	14. Prepares a Daily Cash Collections Summary (see sample **Daily Cash Collections Summary**) to reconcile the amount of total cash collected for the day to the revenue collection reports. Investigates, resolves, and documents any differences.
	15. Files the summary and revenue collection reports by date, and places the cash collections in a safe, locked cash box or locked drawer until deposit.

Cash deposits

Districts should deposit all revenue received intact daily when significant, as defined in district policy, or at least weekly. However, if the governing board determines that a weekly deposit schedule is not achievable due to its distance from the nearest banking location or that nominal

amounts are received and it is not financially advantageous to the district to make weekly deposits (e.g., the district may incur more travel costs to deposit the revenues than the amount of the deposit), the governing board may establish an alternative regular deposit schedule that the district should follow. The governing board's adopted policy should document the reasons the alternative schedule is necessary. The alternative deposit schedule must enable the district to ensure all revenue received is deposited to the county treasurer at least monthly unless held in a Student Activities Fund, Auxiliary Operations Fund, grants and gifts to teachers, or employee insurance program bank account as authorized by A.R.S. §§15-341(19), 15-1125, 15-1126, 15-1223, and 15-1224.

Districts can either deposit revenues directly to the county treasurer or into an authorized district bank account, including clearing bank accounts, for later transmittal to the county treasurer. See the **Bank Accounts section** for more information on authorized bank accounts and their prescribed uses.

Districts should ensure revenue is deposited intact, meaning deposits are made in the same form and amount as originally collected. No disbursements may be made from revenue received before they are deposited, including credit card or automated clearing house (ACH) processing fees. If the district's financial institution automatically applies bank fees or credit card processing fees to a bank account that receives revenue, the district must establish a process to ensure the gross revenue received is recorded in its accounting records, and any fees charged are recorded as an expenditure in an allowable bank account or fund. This may require the district to make an adjusting journal entry for the fee amount to ensure that revenue is recorded in full and the bank or credit card charge is recorded as an expenditure.

Districts must retain evidence from the county treasurer's office or financial institution, indicating the amounts deposited and deposit date.

Deposit procedures

The following sample procedures illustrate remittances of revenues directly to the county treasurer or to an authorized bank account with a financial institution. The individuals identified in the performed by column are continued from the revenue collection procedures described above.

Performed by	***Procedure***
Deposit procedures	
Person 1	1. Removes the cash awaiting deposit from the safe, locked cash box, or locked drawer, and retrieves the daily cash collection summaries and revenue collection reports, as applicable. Counts cash and compares to Part II of the daily cash collection summaries and ensures all revenue collection reports are accounted for on a daily cash collection summary if the district has more than 1 cash collection for the day.

Performed by	*Procedure*
	2. Prepares a sequentially prenumbered deposit transmittal (see sample **Deposit Transmittal Form**), treasurer's receipt, or financial institution deposit slip for the cash or revenue to be deposited. Note: If the county treasurer does not use electronic treasurer's receipts, the treasurer may issue blocks of treasurer's receipts to the district to be prepared and submitted with deposits. When this procedure is followed, the district should establish controls over the unused treasurer's receipts to help ensure that all treasurer's receipts are accounted for and related revenues are accurately recorded.
	Steps 3 through 5 are only required for deposits made directly to the county treasurer. 3. Reviews deposit transmittal (see sample **Deposit Transmittal Form**), treasurer's receipt, cash, and supporting documentation (i.e., cash receipts, revenue collection reports, and daily cash collection summaries, as applicable) with Person 3, who is responsible for recordkeeping procedures.
Person 3	4. Verifies completeness, account coding, and mathematical accuracy of the deposit transmittal or treasurer's receipt based on review of cash and supporting documentation.
	5. Approves deposit transmittal (see sample **Deposit Transmittal Form**) or treasurer's receipt and authorizes the deposit to be made to the county treasurer.
Person 1	6. Submits cash and the deposit transmittal or treasurer's receipt to the county treasurer or CSS, as appropriate, or deposits cash to the appropriate bank account(s) with the district's financial institution. If online deposits are used, see the **Bank Accounts section** for further detailed controls.
	7. Obtains evidence of deposit. Submits a copy of the deposit transmittal, treasurer's receipt, validated bank deposit slip, and supporting documentation to Person 3.

Performed by	*Procedure*
Recordkeeping procedures	
Person 3	8. For county treasurer deposits, enters the deposit transmittal (see sample **Deposit Transmittal Form**) or treasurer's receipt number, date prepared, and amount in a deposit transmittal control log (see sample **Deposit Transmittal Control Log**). Initials the deposit transmittal control log. For bank account deposits, reconciles the validated bank deposit slip to the supporting documentation and records the deposit in the detailed bank account(s) records.
	9. For all deposits other than to clearing bank accounts, records revenue in the accounting records by fund and object based on the information on the validated deposit transmittal, treasurer's receipt, or bank deposit slip. Also, records revenue to any subsidiary records for each student club, auxiliary operations activity, tax credit program, or grants and gifts by teacher, as applicable. Note: Revenues deposited into a clearing account will be recorded in the accounting records when transmitted to the county treasurer. See the **Bank Accounts section** for clearing account remittance procedures.
	10. For county treasurer deposits, retains deposit transmittal (see sample **Deposit Transmittal Form**) or treasurer's receipt and supporting documentation. For bank account deposits, retains validated bank deposit slip or other record of deposit from the bank, and supporting documentation by account or activity.

Districts should receive a validated treasurer's receipt or revenue posting report from the CSS for all revenue deposited in the district's accounts with the county treasurer. The following procedures are recommended when the treasurer's receipt or revenue posting report is received for deposits made by the district.

Performed by	*Procedure*
Person 3	1. Receives the validated treasurer's receipt or revenue posting report from the CSS. Enters the date received and the validated treasurer's receipt number in the deposit transmittal control log. Initials the deposit transmittal control log (see sample **Deposit Transmittal Control Log**). a. Verifies that the amount and account coding recorded on the validated treasurer's receipt or revenue posting report agrees to the amount and account coding posted to the accounting records. b. Reviews outstanding deposit transmittals and treasurer's receipts at least monthly to determine their status. Investigates and resolves any deposit transmittals or treasurer's receipts outstanding for an unusual length of time.
	2. Contacts the county treasurer or CSS and resolves differences when the amount or account coding recorded on the validated treasurer's receipt or revenue posting report does not agree with the district's records. Signs and dates validated treasurer's receipt or revenue posting report to indicate review.
	3. Retains district's copy of the deposit transmittal or treasurer's receipt and supporting documentation with the validated treasurer's receipt or revenue posting report.

Revenues Received Online

Revenues received online have the same requirements as revenues received in person; however, there are some unique considerations and requirements that apply only to online payment systems. Electronic payments through established online payment systems (e.g., InTouch, GoFan, or Titan Solutions), approved by the governing board, can reduce risk related to revenue collection since they issue automated receipts and eliminate handling physical cash. However, reconciliation and accounting record procedures are still needed as described below.

Districts should not use peer-to-peer (mobile) payment apps (e.g., Zelle, Venmo, or Cash App) because these systems do not provide adequate cash controls. Mobile payment apps do not generate sufficient receipt documentation as they allow transfer of money without clear indication of who it is from or what it is for. Further, these apps increase the risk of monies being sent to an incorrect recipient or an employees' bank account if misrepresented as belonging to the district.

Reconciliation

Depending on the frequency and volume of online revenues received, districts should reconcile a daily, weekly, or monthly summary report from the online payment system with the bank account to ensure all revenues were received and the revenue is accurately posted to the appropriate account or subaccount. Also, online payment records should be reviewed for unusual transactions such as redirected payments.

Accounting records

Some online payment systems allow account coding to be built into the system. With this capability, districts may upload reports from the online payment system to their accounting system general ledger. When using this method, the district should review the built-in account codes at least annually to determine if updates are needed. Additionally, the district should periodically review the system-generated reports to ensure established codes are being applied correctly. If the online payment system does not allow for automatic coding, coding must be manually applied in the district's accounting records. The district should also establish a process to verify that payments are properly applied to user's (e.g., student, employee, club, sport, etc.) accounts and should review the transaction report for unusual transactions.

Like credit card transactions through point-of-sale machines, if the online payment system automatically applies processing fees, the district must establish a process to ensure the gross revenue received is recorded in its accounting records, and any fees charged are recorded as an expenditure in an allowable bank account or fund.

A second person should review the online payment system reconciliations and uploads of summary reports to the general ledger and any subaccounts (e.g., student clubs, tax credit, etc.) for accuracy.

Revenues Received Through the County

Districts receive State equalization assistance, property taxes, additional State aid, and interest on pooled investments directly through the county treasurer. Districts may also receive federal and State grant monies or aid through the county treasurer. Once the county treasurer or CSS notifies the district that revenues are received, the district should record the revenues in its accounting records. If a district shares access to its accounting system with its CSS office, the CSS may initiate these revenue transaction postings to the district's accounting records. See the **Accounting Records section** for information on monthly review of transactions the CSS initiates in the district's accounting records.

Districts should receive a validated treasurer's receipt or revenue posting report from the CSS for all revenue deposited in the district's accounts with the county treasurer. The following procedures are recommended when the treasurer's receipt or revenue posting report is received for revenues received through the county.

Performed by	*Procedure*
Person 3	1. Compares validated treasurer's receipt or revenue posting report to supporting documentation, if applicable, to ensure the revenue amount and posted fund are correct. Depending on the CSS' process, post revenue transactions or review revenue transactions initiated by the CSS to ensure accuracy of district's accounting records. 2. Contacts the county treasurer or CSS and resolves differences when the amount or account coding recorded on the validated treasurer's receipt or revenue posting report does not agree with the supporting documentation. Signs and dates validated treasurer's receipt or revenue posting report to indicate review. 3. Retains district's copy of the deposit transmittal or treasurer's receipt and supporting documentation with the validated treasurer's receipt or revenue posting report.

Revenue Apportionment

Although CSS offices generally apportion district revenues pursuant to A.R.S. §15-303, each district has the ultimate responsibility for ensuring that revenues are properly apportioned among its funds. The following paragraphs provide procedures for apportioning most of the various revenues that are not designated for one specific fund. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 maintain their own financial transactions and accounting records and are responsible for completing their own revenue apportionment.

State equalization assistance—State equalization assistance is apportioned between the Maintenance and Operation (M&O) and Unrestricted Capital Outlay (UCO) Funds based on each fund's budgeted expenditures. Therefore, apportionment of State equalization assistance should be based on ratios calculated from amounts recorded on the district's adopted expenditure budget, as follows:

A = Revenue Control Limit (RCL) budgeted for the M&O Fund

B = District Additional Assistance (DAA) budgeted for the M&O Fund

C = RCL budgeted for the UCO Fund

D = DAA budgeted for the UCO Fund

M&O Fund Ratio

$$\frac{A+B}{A+B+C+D}$$

UCO Fund Ratio

$$\frac{C+D}{A+B+C+D}$$

Property taxes and additional State aid—Apportionment of primary property taxes should be based on ratios of the property tax levy in the budget year for the M&O, UCO, and Adjacent Ways Funds to the total primary property tax levy. Secondary property taxes received should be apportioned to the applicable fund based on the purpose of the secondary levy, such as amounts levied for debt service, voter-approved overrides, or desegregation expenditures. Apportionment of additional State aid should be based on ratios of the primary property tax levy in the budget year for the M&O and UCO Funds to the total primary property tax levy for those funds. The ratios should be calculated after the tax rate is set by the county board of supervisors. Tax levy amounts should be obtained from the CSS.

Budget adjustments—If a district revises its budget after adoption, particularly if it reallocates RCL or DAA between the M&O and UCO Funds, the district should review its revenue-apportionment percentages with the CSS office to ensure any equalization assistance, primary property taxes, and additional State aid received throughout the rest of the year will be allocated in accordance with the revised budget capacities. The district may need to record an adjusting journal entry to ensure revenues were appropriately apportioned in each fund based on the related budget limit.

After fiscal year-end, each district should review its final budget capacities reported on its Over Expenditure report (BUDG-75), available on the ADE's website, and the fund balances reported on its unaudited annual financial report in the M&O and UCO Funds to identify any misallocation of revenue from a prior year.

Interest earned on pooled investments—In accordance with A.R.S. §15-996, all district monies on deposit with the county treasurer must be pooled for investment by the treasurer, except Bond Building and Debt Service Funds monies. Interest earned on pooled investments is apportioned by the county treasurer either monthly or quarterly to each district account based on an average daily, weekly, or monthly cash balance in accordance with the *Uniform Accounting Manual for Arizona County Treasurers.*

If the county treasurer maintains a separate account for each district fund, no further apportionment is required. However, if the county treasurer maintains the minimum number of accounts for each district as allowed in A.R.S. §15-996, the CSS must further apportion interest earned from the pooled investments after each county treasurer interest distribution. As prescribed by A.R.S. §15-996(1), if the county treasurer maintains the minimum number of accounts, one treasurer's account must consist of the M&O, UCO, Adjacent Ways, and Classroom Site Funds and a second treasurer's account must consist of federal and State grant monies and all other monies except those that the treasurer must maintain separately for the Bond Building, Debt Service, and New School Facilities Funds.

The *Uniform Accounting Manual for Arizona County School Superintendents* (UAMACSS) §III—Revenues describes apportionment methods a CSS may use depending on whether the county treasurer apportions interest monthly or quarterly and describes considerations for funds with positive and negative balances. Those methods or any other reasonable method may be used to apportion interest earned on pooled investments, but the method used should be applied consistently. Interest earned on the Student Activities Fund balance should be further allocated on

a pro rata basis to the appropriate clubs having monies on deposit. However, interest earned may be deposited into the Student Council Account to benefit the entire student body if all student clubs provide written consent.

Change in value of pooled investments—The county treasurer is also responsible for apportioning the change in fair value on pooled investments to each applicable account in accordance with Governmental Accounting Standards. If the county treasurer maintains the minimum number of accounts for each district, the CSS should further apportion the change in fair value on pooled investments after it has been distributed by the county treasurer.

Interest earned on the Bond Building Fund (A.R.S. §15-1024)**—**Bond Building Fund monies that are not required to be used for 10 days or more may be invested. All interest earned from the investment of Bond Building Fund monies must be credited to the Debt Service Fund unless the voters authorize it to be credited to the Bond Building Fund. This authorization must be based on a separate question on the ballot at the bond election.

Interest earned on the Debt Service Fund (A.R.S. §15-1025)**—**The governing board may request that the county treasurer invest Debt Service Fund monies on the district's behalf. All interest earned from the investment of Debt Service Fund monies must be credited to the Debt Service Fund.

Certificates of educational convenience (A.R.S. §15-825)**—**Revenues from certificates of educational convenience should be apportioned to the M&O, UCO, and Debt Service Funds based on the related request submitted to the ADE.

Tuition (A.R.S. §15-824)**—**Tuition revenues should be apportioned to the M&O, UCO, and Debt Service Funds based on the actual charges to the district of residence calculated.

Revenue recognition

Proper accounting for revenues throughout the fiscal year and at fiscal year-end helps districts ensure that revenues are correctly stated in the unaudited annual financial report and financial statements. Districts should account for revenues in governmental funds on the modified accrual basis of accounting, which requires that revenues be recognized in the fiscal year in which they become measurable and available to pay liabilities of the current fiscal year. Under this basis of accounting, revenues for the year ended June 30 that were not received by June 30 but are expected to be received within 60 days after fiscal year-end should be accrued. To help ensure revenues are recorded in the correct fiscal year, districts should notify the CSS of the appropriate fiscal year in which to record revenues received during the 60-day period after fiscal year-end. Typical revenues that may need to be accrued include property taxes, federal reimbursements, tuition, and interest earned on investments. See the **State and Federal Grants section** for State and federal grant carryover information.

_____ SCHOOL DISTRICT NO. _____

DISTRICT CHANGE FUND LOG

DISTRICT REPRESENTATIVE _____

Log entry number	Date issued	Change fund custodian name	School and activity	Amount issued	Change fund custodian signature	Date returned	Amount returned	District representative signature

NUMBER ____
(sequentially prenumbered)

_____ SCHOOL DISTRICT NO.

CHANGE FUND RECEIPT

COMPLETE WHEN CHANGE FUND ISSUED:

DATE _____
SCHOOL _____
ACCOUNT NAME _____
ACCOUNT CODE _____
CHANGE FUND AMOUNT ISSUED $ _____

_____
CLUB OFFICER/SPONSOR SIGNATURE

_____
DATE

COMPLETE WHEN CHANGE FUND

RETURNED: CASH RECEIVED $ _____
CHANGE FUND AMOUNT RETURNED _____
NET CASH COLLECTIONS $ _____

CASH RECEIVED BY

_____
BOOKSTORE MANAGER OR DESIGNEE SIGNATURE

_____
DATE

_____ SCHOOL DISTRICT NO. __

SCHOOL CHANGE FUND LOG

CHANGE FUND CUSTODIAN NAME _____

SCHOOL _____

Log entry number	Date issued	Amount issued	Cashier/Club sponsor/Ticket seller name	Cashier/Club sponsor/Ticket seller signature	Date returned	Amount returned	Change fund custodian signature

_____ **SCHOOL DISTRICT NO.** ___

RECEIPT BOOK LOG

CUSTODIAN NAME_____

Log entry number	Receipt book issuance date	School/ Club/ Activity	Starting receipt #	Ending receipt #	# of Receipts returned	Cashier name	Book return date	Custodian signature

_____ **SCHOOL DISTRICT NO.** ___

TICKET LOG

CUSTODIAN NAME_____

Log entry number	Ticket issuance date	School/ Club/ Activity	Starting ticket #	Ending ticket #	# of tickets returned	Ticket seller name	Ticket return date	Custodian signature

REPORT NO. _____
(sequentially prenumbered)

_____ **SCHOOL DISTRICT NO.** _____

REVENUE COLLECTION REPORT (Receipts)

School _____
Account name _____ Account code _____
Event _____ Date _____
Club officer/Sponsor _____
Change fund receipt/Log number _____ Change fund amount $ _____

Part I—Cash receipts

Receipt type	Receipt numbers issued From	To	Next receipt number to be issued	Beginning receipt number used	Number sold	Price	Total sales
						$	$

Total receipts: _____

Part II—Cash count

Denomination	Cash returned
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
1.00	
.50	
.25	
.10	
.05	
.01	
Total cash:	
Less change fund:	
Net collections	

Part III—Reconciliation

Total sales (Part I) $ _____

Less: Net collections (part II) $ _____
Credit card receipts _____
Difference $ _____

Reason for difference

Receipts and change fund issued to:

_____
Club sponsor signature

_____
Date

Change fund, receipts, and cash collections received by:

_____
Bookstore Manager or Designee

_____
Date

REPORT NO. _____
(sequentially prenumbered)

_____ **SCHOOL DISTRICT NO.**_____

REVENUE COLLECTION REPORT (Tickets)

School _____
Account name _____ Account code _____
Event _____ Date _____
Club officer/Sponsor _____
Change fund receipt/Log number _____ Change fund amount $ _____

Part I—Cash receipts Part I—Cash receipts

Ticket type	Ticket numbers issued From	To	Next ticket number to be issued	Beginning ticket number used	Number sold	Price	Total sales
						$	$

Total receipts: _____

Part II—Cash count

Denomination	Cash returned
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
1.00	
.50	
.25	
.10	
.05	
.01	
Total cash:	
Less change fund:	
Net collections	

Part III—Reconciliation

Total sales (Part I) $ _____

Less: Net collections (part II) $ _____
Credit card receipts _____
Difference $ _____
Reason for difference

Tickets and change fund issued to:

_____
Club sponsor signature

_____
Date

Change fund, tickets, and cash collections received by:

_____

_____
Bookstore manager or designee

_____
Date

REPORT NO. _____
(sequentially prenumbered)

_____ **SCHOOL DISTRICT NO.** _____

REVENUE COLLECTION REPORT (Miscellaneous)

School _____
Account name _____ Account code _____
Event _____ Date _____
Club officer/Sponsor _____
Change fund receipt/Log number _____ Change fund amount $ _____

Part I—Cash receipts

Receipt number	Fund	Description (received from)	Amount of receipt	Account for deposit (clearing account or county treasurer)
			$	

Total sales: $ _____

Part II—Cash count

Denomination	Cash returned
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
1.00	
.50	
.25	
.10	
.05	
.01	
Total cash:	
Less change fund:	
Net collections	

Part III—Reconciliation

Total sales (part I) $ _____
Less: Net collections (part II) $ _____
Credit card receipts _____
Difference $ _____

Reason for difference

Register and change fund operated by:

_____
Cashier signature

_____
Date

Change fund, receipts, and cash collections received by:

_____
Clearing account custodian

_____
Date

REPORT NO. _____
(sequentially prenumbered)

_____ **SCHOOL DISTRICT NO.**_____

REVENUE COLLECTION REPORT (Inventory)

School _____
Account name _____ Account code _____
Event _____ Date _____
Club officer/Sponsor _____
Change fund receipt/Log number _____ Change fund amount $ _____
Inventory count before sale by: _____ After sale by: _____

Part I—Cash receipts

Item description	Beginning inventory quantity	Ending inventory quantity	Number sold	Price	Total sales
				$	$

Total sales: _____

Part II—Cash count

Denomination	Cash returned
Checks	$
$100.00	
50.00	
20.00	
10.00	
5.00	
1.00	
.50	
.25	
.10	
.05	
.01	
Total cash:	
Less change fund:	
Net collections	

Part III—Reconciliation

Total sales (part I) $ _____
Less: Net collections (part II) $ _____
Credit card receipts _____
Difference $ _____
Reason for difference

Cash collected and change fund operated by:

_____
Club sponsor signature

_____
Date

Change fund and cash collections received by:

_____
Bookstore manager or designee

_____
Date

REPORT NO. _____
(sequentially prenumbered)

_____SCHOOL DISTRICT NO. _____
CAFETERIA _____
FOOD SERVICE DAILY RECONCILIATION REPORT
DATE _____

SALES	MEALS SERVED		PRICE		TOTALS
Student full-price			$		$
Student reduced-price			$		$
Student free					
Paying adult			$		$
				A LA CARTE SALES	$
				TOTAL SALES	$
				AMOUNT OF TOTAL SALES COVERED BY MEAL CARDS, PREPAYMENTS, OR CHARGE SALES	($)
				TOTAL CASH COLLECTED FROM IN LINE OR A LA CARTE SALES	$
				CASH REFUNDS FOR UNUSED MEALS	($)
				COLLECTIONS FOR CHARGE SALES BALANCES	$
				TOTAL COLLECTIONS TO BE ACCOUNTED FOR	$
				DEPOSIT (from Daily Cash Summary Report)	$
				DIFFERENCE	$

Reason for difference:

Cashier _____ Manager _____
(Signature) (Signature)

Date _____ Date _____

_____SCHOOL DISTRICT NO. ___

SCHOOL_____

DAILY CASH COLLECTIONS SUMMARY

_____, _____ 20____
Month Day

Part I—Cash collected and held for deposit

Revenue collection report number	Club/ Account	Activity description	Net cash collections
			$

Total net cash collections $_____

Part II—Cash count

Checks	$_____
$100.00	_____
50.00	_____
20.00	_____
10.00	_____
5.00	_____
2.00	_____
1.00	_____
. 50	_____
.25	_____
.10	_____
.05	_____
.01	_____
TOTAL	$_____

Part III—Reconciliation

Total net cash collections (part I) $_____

Total cash count (part II) $_____

Cash overage (shortage) $_____

Reason for overage (shortage):

_____

_____

_____

Summary prepared by _____ Date _____

Summary reviewed by _____ Date _____

No. _____
(sequentially prenumbered)
Date. _____

_____ SCHOOL DISTRICT NO. _____

DEPOSIT TRANSMITTAL

Fund	Object code	Revenue description	Check/Warrant #	Amount
				$

Total deposited $ _____

Authorized signature: _____ Date _____
Journal entry number for deposit posting: _____

_____ SCHOOL DISTRICT NO. _____

DEPOSIT TRANSMITTAL CONTROL LOG

Deposit transmittal or TR number	Date prepared	Total deposit amount	Initials	VALIDATED TR		
				Date received	TR number	Initials
		$				

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	1
AUTHORIZED BANK ACCOUNTS	2
PROCEDURES	3
Revolving Bank Accounts	5
Clearing Bank Accounts	9
Withholdings Bank Accounts	10
Special Use Bank Accounts	11
Bank Account Reconciliations	13
Online Banking and Deposits	14
Sample Forms	
MEAL CARD REFUND SLIP	16
TICKET REFUND SLIP	17

INTRODUCTION

Most district revenues and expenditures are processed as described in the **Revenues** and **Expenditures sections** and held in accounts with the county treasurer. However, districts may also establish bank accounts with a financial institution for specific purposes. Bank accounts must be authorized by the governing board and are limited to those allowable under Arizona Revised Statutes (A.R.S.) and the USFR. Bank accounts provide more immediate processing of deposits and disbursements.

Internal controls over bank accounts should be adequate to:

- Minimize errors and prevent fraud.
- Ensure only authorized bank accounts are maintained and are used only for their prescribed allowable purposes.
- Limit check signers, access to checks, and online banking passwords.
- Ensure all transactions, held in bank accounts, are recorded in district accounting records and financial reports.

Districts should tailor internal controls to their specific needs. The recommended controls described in this section are provided as examples of sound financial and administrative practices that districts can use in either automated or manual systems to ensure that evidence of review, verification, and approval is documented and retained. Districts may use other controls if they provide at least the same level of internal control. In addition to this section, districts should follow the requirements for cash and revenue collection in the **Revenues section**, the requirements for general and application controls for automated systems in the **Information Technology section**, student activities requirements in the **Student Activities section**, food-service requirements in the **Food Service section**, and the retention schedules provided in the **Records Management section**.

POLICIES

District governing boards should establish written bank account policies and distribute them to all employees with bank account responsibilities. The district's bank account policies should, at a minimum, address the following to comply with statutory requirements and establish effective internal controls over bank accounts:

1. The governing board must authorize the opening and closing of any school district bank accounts. Only bank accounts prescribed by A.R.S. and the USFR may be authorized. The governing board should close any inactive bank accounts promptly.
2. Districts should not provide their employer (taxpayer) identification numbers to nondistrict entities such as booster clubs, parent-teacher organizations (PTO), parent-teacher-student organizations (PTSO) or foundations for the purpose of opening bank accounts.

3. Districts should establish revenue collection and deposit policies as described in the **Revenues section**.
4. The governing board should designate authorized check signers for each bank account and keep a list of all authorized signers. The governing board should remove inactive or terminated check signers from the authorized signer's list and notify its financial institution immediately. Two signers are required for the Student Activities Fund, Auxiliary Operations Fund, Food Service Fund revolving, and Grants and Gifts to Teachers bank accounts.
5. Districts should adequately bond employees handling significant amounts of cash. The governing board must bond the following bank account custodians and check signers:
    a. Maintenance and Operation (M&O) Fund Revolving (A.R.S. §15-1101)—Account custodian.
    b. Auxiliary Operations Fund (A.R.S. §15-1126)—2 check signers.
    c. Food Service Fund Revolving (A.R.S. §15-1154)—2 check signers.
    d. Student Activities Fund (A.R.S. §15-1122)—Student Activities Treasurer and Assistant Student Activities Treasurer.
6. The governing board should establish a maximum dollar limit for checks and require checks to be marked "void after 6 months" to reduce loss exposure and ensure prompt cashing by the payee.
7. The governing board should establish disciplinary actions for the loss, theft, or misuse of district monies through bank account activities.
8. The governing board should require all district monies on deposit with financial institutions to be covered by insurance or collateralization agreements.

AUTHORIZED BANK ACCOUNTS

Governing boards may authorize establishment of only the following bank accounts, and the bank accounts must be used only for their intended purpose as described in the authorization reference provided:

Bank account	Type	Authorization
M&O Fund revolving bank account	Revolving	A.R.S. §15-1101
Miscellaneous receipts clearing bank account(s)*	Clearing	A.R.S. §15-341(A)(20)
Food Service Fund clearing bank account*	Clearing	A.G. Opinion I60-35
Food Service Fund revolving bank account	Revolving	A.R.S. §15-1154
Auxiliary Operations Fund bank account	Special use	A.R.S. §15-1126
Auxiliary Operations Fund revolving bank account(s)	Revolving	A.R.S. §15-1126
Student Activities Fund bank account(s)*	Special use	A.R.S. §15-1122
Student Activities Fund revolving bank account(s)*	Revolving	A.R.S. §15-1124
Federal payroll tax withholdings bank account*	Withholding	USFR, Payroll section
State income tax withholdings bank account*	Withholding	A.R.S. §15-1222

Bank account	Type	Authorization
Employee insurance programs withholdings bank account(s)*	Withholding	A.R.S. §15-1223
Payroll direct deposits clearing bank account*	Clearing	A.R.S. §15-1221
Electronic payments clearing bank account*	Clearing	A.R.S. §15-1221
Grants and gifts to teachers bank account*	Special use	A.R.S. §15-1224
Principals' supplies bank account(s)*	Special use	A.R.S. §15-354

* Bank charges are not authorized to be paid from this bank account. The district should contact its financial institution to request that any bank charges for this account be charged directly to another allowable account such as the M&O Fund revolving bank account. If the financial institution cannot redirect the fees to another allowable account, then the bank account should be reimbursed for any bank charges from an appropriate district fund or bank account to ensure all revenues and expenditures are reported in the proper fund. This may require an adjusting journal entry to show the revenue deposited intact and then the bank charges as an expenditure. Certain accounts cannot pay bank charges as it could cause that account to underreport report revenues, misuse designated monies, or cause student activities to pay for district expenses.

PROCEDURES

Districts should establish written procedures for each bank account the governing board authorizes. The district's procedures should, at a minimum, address the following to establish effective internal controls over bank accounts:

1. Districts should separate responsibilities between cash-handling, review/deposit, disbursements, and record-keeping functions. Small districts unable to adequately separate responsibilities due to insufficient staff size must establish and document additional supervisory review procedures for employees performing more than one of these responsibilities. The review procedures must provide adequate controls to reduce the risk of misreported or unrecorded revenues and disbursements. Districts could consider training multiple employees to perform each procedure and periodically rotate those responsibilities. Adequate separation of responsibilities ensures that a single employee does not have exclusive control over an entire procedure.
2. Districts should establish procedures to ensure online banking access is secure, used only for authorized purposes, on authorized district devices. Districts should prohibit accessing district bank accounts on personal devices such as cell phones to reduce the risk of inappropriate and unauthorized transactions. Online access should be limited to only those with a designated need such as obtaining online statements or completing online deposits. Additionally, online capabilities should be restricted to only what is necessary for an employee's job functions. The individual responsible for reconciling district bank accounts should not have the capability to

complete online transactions. One person should not have sole unrestricted access to online banking capabilities.

3. Districts should establish revenue collection and deposit procedures as described in the **Revenues section**.
4. Disbursements from authorized bank accounts should be made only with sequentially numbered checks or by authorized electronic fund transfers. Bank debit cards should not be used; they create a higher risk of fraud since funds can be accessed immediately without prior approval and inappropriate transactions may be harder to resolve and recover.
5. All bank account disbursements should be preapproved by an authorized district official. Student Activities Fund disbursements must be approved by the club and documented in the club's meeting minutes prior to ordering goods or services.
6. Checks should be properly completed before issuance and should not be made payable to cash or bearer. Voided checks should be marked "void" to prevent reuse and retained and made available to the employee performing bank account reconciliations.
7. Unused checks and check stock for all bank accounts should be physically safeguarded, and access to them should be limited to authorized personnel who are not check signers.
8. If signature stamps, signature plates, and electronic or digital signatures are used for signing checks, they should be safeguarded, and access to them should be limited to only the employee whose signature they represent.
9. A petty cash fund for minor disbursements may be established at a school site by warrants drawn on the Auxiliary Operations Fund in accordance with A.R.S. §15-1126. The petty cash fund should be authorized by the governing board and maintained on an imprest basis which means the total petty cash on hand plus any completed petty cash withdrawal requests equals the authorized imprest amount at all times. The petty cash fund should be closed at fiscal year-end and the cash returned to the Auxiliary Operations Fund.
10. The District should reconcile all bank accounts monthly, and evidence of the reconciliation should be documented and retained. An employee who is not involved in handling cash, issuing checks, or completing online transactions should prepare the bank reconciliation. Small districts unable to adequately separate responsibilities due to insufficient staff size must establish and document additional supervisory review procedures if employees performing bank account reconciliations also handle cash, issue checks, or complete online transactions. The review procedures must provide adequate controls to reduce the risk of unauthorized transactions and undeposited revenues.

There are 4 different types of authorized school district bank accounts as shown in the list above: revolving, clearing, withholding, and special use. Procedures for each type of bank account are described below along with the requirements and allowable uses for the specific bank accounts authorized within each type.

Revolving Bank Accounts

Revolving bank accounts should be operated on an imprest basis. That means monies in the bank account plus the total of the paid invoices and bank charges less interest equal the authorized imprest amount. After disbursements are made, each account should be periodically replenished to the set imprest amount from the fund that established the account, and no additional revenues may be deposited in the revolving bank account. The governing board may establish the following imprest revolving bank accounts for making expenditures and payments that require an immediate cash outlay:

- **M&O Fund revolving bank account** (A.R.S. §15-1101)—This account is used for immediate cash outlays, such as postage, freight, express, fuel taxes, parcel post, travel, and other minor disbursements, such as bank charges. Salaries and wages may not be paid from the M&O Fund revolving bank account.

  The maximum allowable M&O Fund revolving bank account imprest amount is 50 cents for each student, with a limit of $10,000 for elementary and high school districts and $20,000 for unified school districts, with the following exceptions:

  1. The governing board of an elementary or high school district with fewer than 10,000 students may authorize up to $5,000.
  2. The governing board of a unified school district with fewer than 20,000 students may authorize up to $10,000.

  Districts should establish and replenish the account from the M&O Fund on deposit with the county treasurer. The revolving bank account custodian must be covered by a bond in an amount of at least twice the account's authorized amount. The cost of the bond shall be a proper charge against the school district.

- **Food Service Fund revolving bank account** (A.R.S. §15-1154)—This account is used to pay freight on commodities, purchase food required in emergencies, employment of temporary personnel not to exceed 8 hours for any person, or other minor disbursements.

  The maximum allowable Food Service Fund revolving bank account imprest amount is $500. Districts should establish and replenish the account from the Food Service Fund on deposit with the county treasurer. The revolving bank account custodian must be covered by a bond in an amount of at least twice the account's authorized amount. The cost of the bond shall be a proper charge against the school district.

  If the revolving account is used to make refunds for unused meals at the end of the school year, refunds should be supported by prenumbered refund slips (see sample **Meal Card Refund Slip** or **Ticket Refund Slip**). The completed refund slips should be used as support for the revolving account replenishment.

- **Auxiliary Operations Fund revolving bank account** (A.R.S. §15-1126)—This account is used for necessary current expenditures arising from bookstore and athletic activities.

The governing board may establish an Auxiliary Operations Fund revolving bank account for each school within the district. The governing board should determine the imprest amount necessary. Districts should establish and replenish the account from the Auxiliary Operations Fund on deposit with the county treasurer or in the Auxiliary Operations Fund bank account. Monies in the revolving fund bank account must be returned to the credit of the school district Auxiliary Operations Fund at the end of each school year.

Cash advances may be authorized for certain expenditures such as trips for athletic events away from home. To obtain a cash advance, a requester should prepare and submit a request for cash advance form to the bookstore manager or other designated employee for approval. The request for cash advance form should be approved and initialed by the bookstore manager or other designated employee after it is determined that the budget and cash balances are sufficient to cover the advance. The cash advance amount should be recorded on a voucher for approval by the governing board or paid out of the appropriate revolving account if a more immediate cash outlay is required. Receipts for expenditures should be returned to the bookstore along with remaining cash immediately after the trip or event.

If a district establishes an auxiliary operations imprest petty cash fund from the Auxiliary Operations Fund revolving bank account, the petty cash amount must be included as part of the revolving bank account imprest amount. The petty cash fund can be used for postage, freight, express, parcel post, travel, or other minor disbursements, but not including salaries or wages, and that are proper as ultimate expenditures from the school district Auxiliary Operations Fund. A.R.S. §15-1126(D)

- **Student Activities Fund revolving bank account** (A.R.S. §15-1124)—This account is used for necessary current expenditures connected with student activities as defined by A.R.S. §15-1121, et seq.

  The governing board may establish a Student Activities Fund revolving bank account and must determine the imprest amount and include it in the budget. The amount of monies provided in the revolving fund must be returned to the credit of the school district at the end of each school year, and the fund may be reestablished. Districts may establish and replenish the account from the M&O Fund on deposit with the county treasurer.

Establishing Revolving Bank Accounts

Districts should complete the following procedures to establish any revolving bank account using the appropriate fund as described in the account descriptions above.

1. Submit a voucher and application to the county school superintendent (CSS). Prepare and approve the voucher as described in the **Expenditures section**. The application should state the related fund that the revolving bank account is to be established from and must include the amount requested, purpose of the account, name of the bonded bank account custodian, and name of the insurance company and policy number for the bonding. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 should document the information described above but do not need to submit the voucher and application to the CSS.

Note: Districts that deposit Auxiliary Operations Fund or Student Activities Fund revenues in an Auxiliary Operations Fund or Student Activities Fund bank account, rather than with the county treasurer, should follow the Auxiliary Operations Fund bank account disbursement procedures described below instead of submitting a voucher to the CSS.

2. The revolving bank account custodian should immediately deposit the warrant or check for establishment of the bank account into the revolving bank account. See the **Revenues section** for detailed deposit procedures.
3. The custodian should enter the deposit date, description, and deposit amount in the revolving bank account detailed records and retain evidence of the deposit from the financial institution.

Revolving Bank Account Disbursements

Performed by	***Procedure***
Employee requesting a check	Complete a revolving bank account check request that includes the request date, amount requested, payable to, invoice or order number, purpose, and requester name. Obtain and document the appropriate supervisor's approval on the revolving bank account check request. Submit the approved revolving bank account check request and supporting documentation (e.g., invoice) to the revolving bank account custodian.
Revolving bank account custodian	Document review of the revolving bank account check request and the invoice's mathematical accuracy. Document and resolve any discrepancies prior to check issuance. Record the disbursement in the revolving bank account detailed records and prepare and sign a revolving bank account check. Document the check number, account code, and date on the revolving bank account check request. Mark the vendor invoice and other supporting documents paid indicating check number, amount, and date to prevent reuse, and forward the signed check to the requester. Retain the revolving bank account check request and supporting documents. These documents will be used when the bank account is replenished.
Employee requesting a check	Return any additional supporting documentation to the revolving bank account custodian after using the check for its intended purpose, such as a detailed payment receipt for the item or service purchased.

Replenishing Revolving Bank Accounts

When the revolving bank account cash balance reaches a predetermined minimum level, the bank account custodian should submit documentation and request replenishment of the account as described below. For Auxiliary Operations Fund revolving bank accounts, the procedures will need to be modified if the Auxiliary Operations Fund or Student Activities Fund is held in a bank account rather than with the county treasurer. In such cases, supporting documentation is submitted to the Auxiliary Operations Fund bank account custodian or Student Activities Fund treasurer instead of the accounts payable clerk.

Performed by	***Procedure***
Revolving bank account custodian	Submit all revolving bank account check requests and related supporting documentation to the accounts payable clerk.
Accounts payable clerk	Reconcile revolving bank account check requests, related supporting documentation, and any recent bank statements.
	Prepare a voucher equal to the total of the paid revolving bank account check requests and any applicable bank charges less interest earned in the revolving account since the last replenishment. See the **Expenditures section** for detailed voucher-preparation procedures.
Revolving bank account custodian	Immediately deposit the warrant into the revolving bank account following district cash and revenue deposit procedures.
	Verify the deposit amount and enter the deposit in the revolving bank account detailed records. Evidence of the deposit from the financial institution should be retained.

Fiscal Year-End

All reimbursements for revolving bank account expenditures for the current fiscal year should be made by June 30 so that expenditures are reported in the proper accounting period. In accordance with A.R.S. §§15-1124 and 1125, the Student Activities Fund and Auxiliary Operations Fund revolving bank account monies must be returned to their respective source funds at the end of the fiscal year (e.g., Auxiliary Operations Fund revolving bank account monies must be returned to the Auxiliary Operations Fund) and may be reestablished. If the governing board decides to terminate the M&O Fund or Food Service Fund revolving bank accounts, the custodian must return the original amount of the revolving fund bank account to the county treasurer pursuant to A.R.S. §§15-1101 and 15-1104.

Clearing Bank Accounts

The governing board may establish clearing bank accounts to hold and safeguard monies before they are either deposited with the county treasurer, paid to employees through direct deposit, or paid to vendors through electronic payments. The governing board may establish clearing accounts that fall into 2 categories: revenue-clearing accounts and payment-clearing accounts. No disbursements are allowed from revenue-clearing bank accounts other than remittances to the county treasurer.

Revenue Clearing Bank Accounts

- **Miscellaneous receipts clearing bank account** [A.R.S. §15-341(A)(20)]**—**The governing board may establish 1 or more miscellaneous receipts clearing bank accounts, depending on a district's needs.
- **Food Service Fund clearing bank account** (A.G. Opinion I60-35)**—**The governing board may establish Food Service Fund clearing bank accounts for the deposit of food service cash receipts.

Deposits to Revenue Clearing Bank Accounts

Cash and revenues received at the district should be deposited as described in the **Revenues section**. All revenues deposited in these clearing bank accounts must be remitted intact to the county treasurer at least monthly.

Remittances from Clearing Bank Accounts

The following procedures are recommended for remitting monies held in the clearing bank account to the county treasurer.

Performed by	***Procedure***
Clearing account custodian	Prepares a check payable to the county treasurer for the amount equal the total of all deposits made to the clearing account for revenues received since the last remittance. Prepares a sequentially numbered county treasurer's receipt or deposit transmittal, identifying the fund and revenue object code in accordance with the **Chart of Accounts section**, revenue description, check or warrant number, and amount to be transmitted. Submits check written to the county treasurer, treasurer's receipt or deposit transmittal, cash-collection reports, and supporting documentation to the authorized check signer.

Performed by	*Procedure*
Authorized check signer	Reviews mathematical accuracy and completeness of the treasurer's receipt or deposit transmittal, based on review of supporting documentation ensuring revenue is intact. Verifies that the check or transmittal is to the county treasurer and signs the check and approves the deposit transmittal or treasurer's receipt. Submits the check or transmittal and treasurer's receipt or deposit transmittal to the county treasurer. Submits a copy of the treasurer's receipt or deposit transmittal and supporting documentation to the recording clerk.
Recording clerk	See the **Revenues section** for cash received in person deposit procedures for procedures the recording clerk should use to finish this process.

Payment Clearing Accounts

- **Payroll direct deposit clearing account—**See the **Payroll section** for account description.
- **Electronic payments clearing account** [A.R.S. §15-1221(B)]**—**The governing board may establish an electronic payments clearing bank account to deposit monies for the purpose of making electronic payments to vendors, including the payment of retirement contributions to the Arizona State Retirement System and use tax to the Arizona Department of Revenue. The bank account may be funded by requesting a warrant from the county school superintendent for an amount equal to the vendor's payment amount. The bank account may be an interest-bearing account. The bank account must be a clearing bank account maintaining a zero balance except for any interest earned for the account. At the end of the fiscal year, any interest earned for the account must be deposited with the county treasurer and recorded as interest revenue in the M&O Fund.

Withholdings Bank Accounts

Withholding bank accounts are for depositing and accumulating monies a district withholds from employees' payroll and any related district contributions, for tax and insurance purposes. The governing board may approve the following payroll withholding bank accounts. See the **Payroll section** for descriptions of these bank accounts.

- **Federal payroll tax withholdings bank account.**
- **State income tax withholdings bank account.**
- **Employee insurance programs withholdings bank account(s).**

These bank accounts may be interest bearing, and at the end of each fiscal year, all interest earned must be remitted to the county treasurer for credit to the district's M&O Fund.

Special Use Bank Accounts

Statute allows the governing board to establish bank accounts for special uses that are not revolving, clearing, or withholding accounts.

- **Auxiliary Operations Fund Bank Account** (A.R.S. §15-1126)—The governing board may establish this bank account to account for monies collected in connection with bookstore and athletic activities. Employees authorized by the governing board to sign Auxiliary Operations Fund bank account checks must be covered by a bond in an amount determined by the governing board, and the cost of bond premiums may be a charge against the fund.

  Districts may also use the Auxiliary Operations Fund bank account for revenues and expenditures of monies collected in support of extracurricular activities to be taken as a tax credit by the taxpayer in accordance with A.R.S. §43-1089.01 and spent on the activities for which they are collected. Districts must maintain detailed records to ensure that tax credit monies are used only for allowable expenditures and in support of both the school and purpose the taxpayer designated.

  Districts may also choose to hold Auxiliary Operations Fund monies on deposit with the county treasurer.

- **Student Activities Fund Bank Account** (A.R.S. §15-1122)—The governing board may establish this account to account for monies collected by the efforts of students in connection with all activities of student organizations, student clubs, school plays, or other student entertainment, other than Auxiliary Operations Fund monies. In districts that have multiple schools and the governing board has designated an assistant student activities treasurer for each school site, a bank account may be established for each school site. The student activities treasurer and assistant student activities treasurer(s) authorized by the governing board must be covered by a bond in an amount determined by the governing board, and the cost of bond premiums must be a charge against the school district and not the Student Activities Fund. See the **Student Activities section** for additional requirements for student activities operations, including specific student activities revenue and disbursement requirements.

  Districts may also choose to hold Student Activities Fund monies on deposit with the county treasurer.

- **Grants and Gifts to Teachers Bank Account** (A.R.S. §15-1224)**—**The governing board may establish a grants and gifts to teachers bank account to deposit grants and gifts that are less than $1,500 and designated for a teacher's use for instructional purposes. Districts must account for each grant or gift deposited in the bank account. Detailed records for each grant or gift should include, at a minimum, the teacher's name, grantor, date and amount of each deposit and withdrawal, and remaining balance. Disbursements from the bank account must be authorized by the teacher designated to use the grant or gift and must be by check, signed by 2 district employees appointed by the governing board. Monies not spent before the end of the fiscal year in which the grant or gift was accepted must remain in the bank account until needed for instructional purposes as designated by the teacher or determined by the grantor.

- **Principals' Supplies Bank Account(s)** (A.R.S. §15-354)—The governing board may establish principals' supplies bank accounts and authorize school principals to issue checks on behalf of the district for purchases of supplies and materials that are necessary to conduct the school's

operations. A separate account must be maintained in the district's M&O budget for each authorized school in the district for the purchase of supplies and materials. Each school's account must not exceed $5,000. A warrant should be drawn against the M&O Fund to establish each bank account. The governing board may delegate the purchasing authority for each school's bank account to either the school's principal or to 1 or more employees who report to the principal. Disbursements from the bank account(s) must be by check, signed by an authorized employee appointed by the governing board. A.R.S. §15-354 exempts purchases from the bank account(s) from competitive purchasing requirements. Within 30 days after the purchase, the principal must supply the governing board with a receipt from the seller of the supplies and materials that shows the price for each item purchased. The principal and the governing board must ensure that all purchases are necessary to conduct the school's operations. Disbursements from the principals' supplies bank account(s) should be recorded as expenditures in the M&O Fund in the fiscal year they are made. This should be done when receipts are submitted to the governing board or at least by June 30.

Deposits to Special Use Bank Accounts

Revenues received at the district should be deposited as described in the **Revenues section**.

Disbursements from Special Use Bank Accounts

Performed by	***Procedure***
Principal, Designated teacher, Club officer/sponsor	Prepares and submits a purchase request to the account custodian.
Account custodian/Check signer (Student Activities Treasurer, Bookstore manager, or Designated check signer)	Reviews the purchase request for mathematical accuracy. Verifies account balance is adequate and disbursement is appropriate. Signs and dates purchase request to document approval. Prepares a prenumbered purchase order. Distributes the purchase order to the vendor and retains a copy.
Principal, Designated teacher, Club officer/sponsor	Receives the order and completes the receiving report.
Account custodian/Check signer (Student Activities Treasurer, Bookstore manager, or Designated check signer)	Receives the completed receiving report and invoice, verifies mathematical accuracy and that the receiving report matches the purchase order description, quantity, and cost. Prepares and signs the check.

Performed by	*Procedure*
Secretary	Compares vendor name and check amount and the remit to address to supporting documentation and mails the check.
Account custodian/Check signer (Student Activities Treasurer, Bookstore manager, or Designated check signer)	Records the transaction in the accounting records and files the supporting documentation, including the purchase request, purchase order, invoice, and receiving report.

Bank Account Reconciliations

Districts should obtain monthly bank statements that summarize the account activity and report the ending cash balance for each bank account. Bank statement cash balances generally do not agree to the district's records because checks may be outstanding, deposits may have been made after the bank statement date, and the district may not have recorded bank charges and interest. Therefore, a reconciliation is performed to verify the accuracy of both the bank and district balances. Bank account reconciliations should be prepared monthly for each bank account, and evidence of the reconciliation and any review should be documented and retained. An employee who is not involved in handling cash, issuing checks, or completing online transactions should prepare the bank reconciliation. Small districts unable to adequately separate responsibilities due to insufficient staff size must establish and document additional supervisory review procedures if employees performing bank account reconciliations also handle cash, issue checks, or complete online transactions. The review procedures must provide adequate controls to reduce the risk of unauthorized transactions and undeposited revenues.

Bank account reconciliation procedures

The employee reconciling the bank account should:

1. Receive the bank statement directly from the financial institution through electronic access to the account or by mail and have access to voided checks and electronic images or copies of canceled checks.
2. Obtain the detailed records of deposits and disbursements for the bank account.
3. Compare the canceled checks to the detailed records to ensure that the number, date, payee, and amount agree. Canceled checks should be examined for authorized signatures, alterations (such as changes to payee or dollar amounts), and irregular endorsements.
4. Document any outstanding checks. Outstanding checks are checks that have been issued and deducted in the detailed records but have not been deducted from the bank balance as shown on the bank statement. If checks have been outstanding for 6 months (180 days) or longer, the employee should void the checks and increase the recorded bank account balance by the amount of the voided checks.

5. Compare the date and amount of each deposit shown on the bank statement to the detailed accounting records and to the evidence of deposit provided by the financial institution.
6. Document all deposits made after the bank statement date and, therefore, not included in the balance shown on the bank statement.
7. Differences noted during the reconciliation process should be researched and resolved and the balance in the detailed records adjusted, if necessary. The reason for any adjustments should be described in the reconciliation documentation and approved by an appointed supervisor or school site employee, depending on the applicable bank account. Suspicious or unusual differences such as duplicate payments or unauthorized transfers should be reported to a supervisor or district management immediately.
8. Record any bank charges and interest indicated on the bank statement in the detailed records.
9. Compute the month-end adjusted bank balance as follows:

	Ending balance per bank statement.
+	Deposits made after statement date and interest earned from the bank statement.
–	Outstanding checks and bank charges.
+ or –	Any item disputed and resolved as a bank error.
=	Month-end reconciled balance.

10. Compare the balance computed in #9 to the adjusted balance in the detailed records. Differences should be researched and resolved.
11. Document the employee who prepared the reconciliation and when it was completed. If the employee preparing the reconciliation is also responsible for handling cash or issuing checks, district management should review and document approval of the reconciliation and supporting documentation.
12. Retain the reconciliation and all supporting documents.

Online Banking and Deposits

Online deposits, through a desktop scanner or web-based application, have the same requirements as other bank deposits. However, there are unique considerations and requirements that apply only to online deposits.

Online deposits leave districts with the original checks on hand. Districts should take additional measures to ensure checks deposited through an online process are physically safeguarded from misuse. When making online deposits, districts should complete the following:

1. Ensure the check was restrictively endorsed before scanning and depositing.
2. Mark the check immediately after deposit to indicate that it has been deposited to prevent duplicate deposit attempts.

3. Document the deposit in a log or journal of checks deposited. Each entry must include the date received, depositor name, amount deposited, and the initials or signature of the employees recording and observing the entry.
4. Save or print the deposit receipt, if provided, and any deposit notification emails or reports that may follow to support the deposit. This documentation will be required for the bank account reconciliation process.
5. Safeguard the deposited checks in a locked safe or other locked area, such as a filing cabinet, until destroyed. The bank's requirements and district's policies should determine how long deposited checks should be held, but they should be held at a minimum until the applicable bank account is reconciled and any related discrepancies have been resolved.
6. Destroy deposited checks by shredding them after holding them for the appropriate length of time from deposit. Involve 2 employees in the shredding and record the deposited checks' destruction in the log or journal of processed deposits.

In addition to ensuring the physical security of checks, districts should ensure the security of the online banking system used to make online deposits or access bank statements. The district should limit access to online banking only to authorized personnel on authorized devices, and to the extent possible, only for deposits and bank account statement access. Districts should prohibit accessing district bank accounts on personal devices such as cell phones to reduce the risk of inappropriate and unauthorized transactions. All authorized personnel should properly log off the banking website when online deposits are completed or statements are retrieved, and banking passwords should not be saved on the device used. The individual responsible for reconciling district bank accounts should not have the capability to complete online transactions. Otherwise, bank reconciliations should be reviewed to detect any inappropriate use of the online access established to make deposits, such as transfers to other accounts or online payments initiated from any account other than the electronic payments clearing bank account.

_____ SCHOOL DISTRICT NO. _____

CAFETERIA _____

MEAL CARD REFUND SLIP

No. _____
(sequentially prenumbered)

Date _____

Student name _____

Meal card no. _____

Meal card type _____

Account balance $ _____

Amount refunded $ _____

Refund received by: _____
(Parent or student)

_____
Cashier

_____
Cafeteria manager

_____ SCHOOL DISTRICT NO. _____

CAFETERIA _____

TICKET REFUND SLIP

No. _____
(sequentially prenumbered)

Date _____

Student name _____

Ticket type _____ _____

Ticket numbers _____ _____

_____ _____

_____ _____

_____ _____

_____ _____

Total number of tickets _____

Ticket price X $ _____

Refund amount = $ _____

Refund received by: _____
(Parent or student)

_____
Cashier

_____
Cafeteria manager

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	1
PROCEDURES	3
Separation of Responsibilities	4
Sample Expenditure Procedures	4
Warrant Receipt and Distribution	9
Warrant Processing for Districts Approved to Assume Accounting Responsibility	10
Credit Memos	12
Prepayments	13
Year-End	14
Advice of Encumbrance	14
Conflict of Interest (COI)	15
Sample Forms	
PURCHASE REQUISITION	16
PURCHASE ORDER—Vendor (Original) and District (Copy)	17
PURCHASE ORDER—Receiving Report (Copy)	18

INTRODUCTION

Districts process a wide range of expenditures to support instructional, operational, and administrative district needs. Districts should establish and maintain an expenditure-processing system that provides accountability in the use of district resources.

Internal control over expenditures should be adequate to:

- Ensure expenditures are accurate, properly authorized, and adequately supported.
- Ensure expenditures are within budget limits and cash balances.
- Ensure expenditures are paid timely and accurately.
- Ensure expenditures are recorded in the correct fiscal year.
- Provide accurate financial information for district stakeholders.
- Minimize errors and prevent fraud, theft, and misuse.
- Prevent conflicts of interest from influencing district purchases.

Districts should tailor internal controls to their specific needs. The recommended controls described in this section are provided as examples of sound financial and administrative practices that districts can use in either automated or manual systems to ensure that evidence of review, verification, and approval is documented and retained. Districts may use other controls if they provide at least the same level of internal control. In addition to this section, districts should follow the requirements for monies disbursed from a bank account in the **Bank Accounts section**, conflict of interest disclosure and remediation requirements in the **Conflict of Interest section**, student activities requirements in the **Student Activities section**, food service requirements in the **Food Service section**, general and application controls for automated systems in the **Information Technology section**, and the retention schedules provided in the **Records Management section**. Districts approved to assume accounting responsibility as authorized by Arizona Revised Statutes (A.R.S.) §15-914.01 operate independently of the County School Superintendent (CSS) and, therefore, maintain their own financial transactions and accounting records related to expenditures.

POLICIES

School district governing boards should establish written expenditure policies and distribute them to all employees with expenditure processing responsibilities. The district's expenditure processing policies should, at a minimum, address the following to comply with statutory requirements and establish effective internal control over expenditures:

1. The governing board must approve all expenditures. Board members may sign expenditures between board meetings, provided that, prior to the signing, the board has passed a resolution authorizing that procedure. When board members approve expenditures between meetings, the board must ratify the expenditures in its next regular or special meeting. Ratification is not the first approval, but the formal action taken to document the board approval obtained between meetings. A.R.S. §15-321(G)

2. District policy may allow an electronic approval process. Districts should consult their legal counsel and authorized county personnel for satisfactory methods to document board members' signatures, such as faxed documents; electronic approval software; preauthorized, dedicated email addresses; or another agreed-upon method.

3. In accordance with A.R.S. §15-304, the governing board should not authorize expenditures from the Maintenance and Operation (M&O), Unrestricted Capital Outlay (UCO), Adjacent Ways, and Classroom Site Funds (A.R.S. §§15-978 and 15-996) or federal and State grant funds in excess of the adopted budgets except for:

   - Expenditures the county board of supervisors authorized as provided in A.R.S. §15-907.
   - Expenditures in excess of the amount budgeted for a subsection of the M&O Fund, if authorized by the governing board at a public meeting and the total M&O Fund budget is not exceeded. A.R.S. §15-905(G)

4. The governing board should not authorize expenditures from cash-controlled funds unless sufficient cash is available in the funds. However, if the county treasurer maintains the minimum number of accounts as prescribed in A.R.S. §15-996 and the expenditures have been included in the budget section of the approved federal or State grant application, then the governing board may authorize expenditures from State and federal grants regardless of whether sufficient cash is available in the funds. Cash-controlled funds are all funds other than the budget-controlled funds listed in #3 above. A.R.S. §15-304

5. Districts must expend extracurricular activities fees tax credit monies only for eligible activities that qualify under A.R.S. §§43-1089.01 and 15-342(24).

6. School district warrants not presented for payment within 1 year after the date of issuance are void and have no further force or effect. Districts must appropriately adjust the records of the applicable funds after the county treasurer reverts the monies held for payment to the fund upon which the warrants were drawn. A.R.S. §15-999.

7. Districts must prepare, for all levy funds, a list of liabilities by fund and program for goods or services received but not paid for on or before June 30. Districts with levy fund liabilities payable on June 30 must file an advice of encumbrance, based on the list, with the CSS by July 18. Districts approved to assume accounting responsibility, as authorized by A.R.S. §15-914.01, are not required to file an advice of encumbrance with the CSS but should perform the duties as described in A.R.S. §15-304. A.R.S. §15-906

8. Districts that are members of a career technical education district (CTED) must use any monies received from the CTED to supplement and not supplant base-year career and technical education courses, and directly related equipment and facilities. The districts must prepare the CTED supplanting worksheet and submit the form to the CTED's governing board and the Arizona Department of Education. A.R.S. §15-393 (D)(7)

PROCEDURES

Districts should establish written procedures to enforce and uphold the governing board's adopted expenditure policies. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 may need to modify some of the following procedures related to interaction with the CSS and county treasurer to reflect the responsibilities they have taken or that are otherwise performed by a CSS. The district's procedures should, at a minimum, address the following to establish effective internal controls over expenditures:

1. Districts should separate responsibilities for expenditure authorization, ordering, and receiving, and voucher preparation, authorization, and recordkeeping. Small districts unable to adequately separate responsibilities due to insufficient staff size must establish and document additional supervisory review procedures for employees performing more than one of these responsibilities. The review procedures must provide adequate controls to reduce the risk of unsupported, unauthorized, or incorrect expenditures. Districts could consider training multiple employees to perform each procedure and periodically rotate those responsibilities. Adequate separation of responsibilities ensures that no single employee has exclusive control over and knowledge of a procedure.
2. Districts should use sequentially prenumbered purchase requisitions that are signed and dated by both the requestor and the department individual authorized to approve the requisition to initiate a request for goods or services. Once a purchase requisition is approved, a separate district official should confirm that requested items are not already available through the district's supply system, that the request complies with district purchasing requirements, and that sufficient budget capacity or cash is available in the appropriate funds, as applicable, before preparing a purchase order.
3. Districts should prepare sequentially prenumbered purchase orders that are approved by an authorized district official, other than the requestor, before goods or services are ordered, except for exempted items such as salaries and related costs. A purchase order serves as the formal authorization and supporting document for purchases and should specify the goods or services approved for purchase and the related charges.
4. Districts should revise purchase orders when key purchase terms are updated such as price changes after the original purchase order was approved. The revised purchase order should be reapproved with the updated information.
5. Districts may use blanket purchase orders for purchases of a recurring nature from the same vendor within a specified time frame, such as maintenance supplies and food service items. Blanket purchase orders should describe the item(s) or service(s) allowed to be purchased using the blanket purchase order, a definite time period that the purchase order is in effect, and a specific dollar limit. Invoice amounts paid against a blanket purchase order should be deducted from the total limit to determine the remaining unexpended balance. Only the goods or services specified on the blanket purchase order may be purchased using that blanket purchase order. The district should periodically review open blanket purchase orders and close

those outstanding for more than the specified time period. All blanket purchase orders should be closed with the vendor at year-end.

6. Districts should prepare receiving reports for all goods and services received, except items such as salaries and related costs, utilities, and in-state travel. The receiving report should document what was received (quantity of goods or description of service), when it was received, and who verified that the goods or services were received.
7. Districts should confirm the requisition, purchase order, and receiving report agree to the vendor invoice prior to authorizing payment.
8. If signature stamps, signature plates, and electronic or digital signatures are used for signing vouchers or warrants, they should be safeguarded and access to them limited to only the governing board member or employee whose signature they represent.

Separation of Responsibilities

Districts must ensure that no one person can have control over an entire expenditure transaction. There are 2 components to the expenditure process that districts should consider when separating responsibilities. First is the purchasing component, which includes purchase authorization, ordering, and receiving. The second component is payment processing, which includes voucher preparation, authorization, and recordkeeping. At a minimum, districts should separate the responsibilities between 3 individuals to ensure adequate internal control over expenditures.

Small districts unable to adequately separate the responsibilities due to insufficient staff size must establish and document additional supervisory review procedures. The review procedures must provide adequate controls to reduce the risk of unsupported, unauthorized, or incorrect expenditures. For example, if an employee with procurement/ordering responsibilities is also responsible for receiving goods, a second individual independent of both responsibilities should confirm the goods are received at the district and agree to the original purchase requisition, documenting the procedures performed, before payment is made to the vendor. The individual performing these additional review procedures should not be a subordinate of the other individual, and should understand that the purpose of their review is to ensure purchases are appropriate and received at the district.

Sample Expenditure Procedures

The following procedures and sample forms provide for the minimum separation of responsibilities for expenditures. Throughout the following sample procedures, Person 1 is responsible for purchase requisition and receiving responsibilities; Person 2 is responsible for procurement/ordering voucher preparation, vendor payment, and recordkeeping responsibilities; and Person 3 is responsible for review and approval responsibilities. Districts may insert additional employees into the procedures to increase the separation of

responsibilities. In larger districts, additional steps may be required to account for expenditure authorization and delivery of goods to individual school sites.

The following procedures illustrate expenditure processing for purchases of goods and will require minor modifications for purchases of services. Districts may adjust these procedures based on organizational structure or degree of automation, (e.g., electronic approvals in place of signatures, electronic document storage in place of filing hard copies, electronic payments, etc.), provided internal control objectives and accurate recordkeeping are preserved. See the **Information Technology section** for information regarding general and application controls for automated systems.

Performed by	***Procedure***
Person 1	1. Prepares a sequentially prenumbered purchase requisition with the purchase specifications (see sample **Purchase Requisition**), which should be signed and dated by the requisitioner and the department individual authorized to approve the requisition.
	2. Submits purchase requisition to Person 2 (within the district office) and retains a copy.
Person 2	3. Reviews purchase requisition and determines whether it is for an authorized district purchase. If the request is not authorized, return the rejected requisition to the department. If the request is authorized, move on to step 4.
	4. Districts that do not maintain a central supply warehouse should ensure supplies are not available within the district's decentralized supply system before purchasing the requested items. Districts that maintain a central supply system should verify that items requested are not in central supply. If items are in central supply, forwards the requisition to central supply for processing. The procedures in the **Supplies Inventory section** are then followed by central supply.
	5. Verifies that sufficient budget capacity exists prior to making expenditures from budget-controlled funds (M&O, UCO, Adjacent Ways, and Classroom Site Funds) and federal and State grant funds, if applicable.
	6. Verifies that sufficient cash is available prior to making expenditures from other funds.

Performed by	*Procedure*
	7. Returns the rejected requisition to the department if sufficient budget capacity or cash balance, as applicable, is not available. or Signs and dates the requisition to document approval if sufficient budget capacity or cash balance is available.
	8. Determines whether the requested items may be purchased under an existing vendor contract. If an existing vendor contract does not exist, selects a vendor and verifies the total cost including taxes, shipping, and other fees, after completing any required procurement procedures prior to selecting a vendor: • For purchases of $100,000 or more, initiates procurement procedures required by the School District Procurement Rules (A.A.C. R7-2-1001 et seq.). (See the **Procurement section**) • For purchases of at least $15,000 and less than $100,000, issues requests for quotes in accordance with the guidelines for written quotes (See the **Procurement section**).
	9. Reverifies budget capacity or cash balance, as applicable, if the actual cost exceeds the estimated cost recorded on the requisition.
	10. Prepares a sequentially prenumbered purchase order (see sample **Purchase Order**). Forwards requisition, purchase order, and any procurement documentation to Person 3 for review and approval. If a purchase order is created but the goods or services were not ordered, it should be voided to prevent reuse and retained as supporting documentation.
Person 3	11. Reviews the requisition, purchase order, and any procurement documentation and approves the purchase order.
Person 2	12. Orders goods from the selected vendor. If significant time has passed since pricing was obtained, confirm that pricing/quote information is still applicable prior to ordering.

Performed by	*Procedure*
Person 1	13. Obtains a receiving report (see sample **Receiving Report**) or copy of the purchase order with quantities ordered removed, from Person 2 and performs the following steps when the goods are received: a. Inspects the goods for visible damage in the carrier's presence or confirms the agreed upon purchase service or construction project has been completed. Damaged goods or unsatisfactory work should not be accepted. b. Completes the receiving report, documenting the date received, quantity received, condition of goods or completion of agreed upon work, and signature of employee receiving the goods. If a copy of the purchase order is used as a receiving report, the quantity ordered should have been blocked out and the quantity received should be recorded next to the description of each item. c. Delivers goods to the requisitioner, if Person 1 was not the individual or department that requested the goods be purchased, and obtains confirmation of delivery by requiring the recipient to initial and date the receiving report. d. Submits the completed receiving report to Person 2, with work order, service completion report, or shipping documents attached, such as bills of lading or freight bills. Note: Receiving reports should also be prepared and retained for purchased services and construction projects for verification of performance and completion. Such receiving reports should be prepared by the district employee responsible for procuring the services or managing the project.
Person 2	14. Compares the receiving report with a copy of the requisition and purchase order.
	15. Notes on the purchase order items satisfactorily received and clearly indicates the status of the purchase order (complete, partial shipment, etc.). If any overages or shortages are noted, contacts the vendor to resolve.
	16. Attaches the receiving report with shipping documents, work order, or service completion report to a copy of the purchase order and requisition, and retains all documents until receipt of vendor's invoice.

Performed by	*Procedure*
	17. Receives vendor's invoice and records the date the invoice is received on the invoice.
	18. Verifies terms, quantities, and prices on the purchase order, vendor's invoice, and receiving report or service completion report all agree. Differences or open credit memos should be resolved before payment is made. If a partial shipment was received, the district should pay for only the goods received. Evidence of review, such as signature of the employee who completed the review and the date of review, should be documented on the invoice.
	19. For purchases made through written quotes or competitively awarded contracts, including cooperative agreements, agrees invoice amounts to contract pricing and terms and conditions. If pricing did not agree, contacts the vendor to determine the reason and either obtains a revised invoice or documents an authorized reason for the difference or what action was taken to remedy the difference on the purchase order or invoice, or within the expenditure file.
	20. Calculates cash discount, if applicable.
	21. Attaches the vendor's invoice to a copy of the purchase order, requisition, receiving report, and shipping documents.
	22. Prepares an expenditure voucher, which consists of a voucher cover sheet and voucher supplement, which at a minimum includes vendor name, account coding, and dollar amount. Records expenditures by fund, program, function, expenditure object, and unit codes prescribed in the **Chart of Accounts section**.
	23. Forwards the voucher cover sheet, voucher supplement, and supporting documentation to Person 3.

Performed by	*Procedure*
Person 3	24. Verifies that the voucher cover sheet agrees to the voucher supplement and supporting documentation and that expenditures are recorded in accordance with the **Chart of Accounts section**. a. Totals voucher supplement expenditures by fund and agrees these totals to the voucher cover sheet fund totals. b. Totals voucher supplement expenditures by vendor and agrees these amounts to the related warrant amount on the supplement. c. Reviews supporting documentation and agrees invoice amounts to the voucher supplement.
	25. Signs and dates the voucher to indicate approval and submits the voucher, including the voucher supplement, to the governing board for approval.
Governing Board	26. Governing board reviews and signs voucher to indicate approval. If authorized by a governing board resolution, vouchers may be signed between board meetings and ratified by the board at the next governing board meeting. A.R.S. §15-321
Person 2	27. Receives approved voucher from the governing board and records the expenditures using the account codes indicated on the voucher. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 should see Warrant Processing for Districts Approved to Assume Accounting Responsibility below.
	28. Forwards voucher to the CSS and retains a copy of the voucher with supporting documentation by voucher number until the warrants are received.

Warrant Receipt and Distribution

District payments made through the county treasurer use a warrant, which is a written order drawn by a CSS on behalf of a governing board, directing the county treasurer to pay a specified amount to a designated payee. Unlike checks, warrants are not necessarily payable on demand and may not be negotiable. After the CSS processes the vouchers, they will provide the district warrants for issuance to vendors and a warrant register. The warrant register will include the warrant number, date, amount, and payee, and identify the district and voucher number. Before distributing the warrants to vendors, the district should compare the information on the warrants to the information on the voucher and warrant register.

Performed by	*Procedure*
Person 2	1. Compares the warrants to the warrant register on a test basis to ensure that the warrant number, payee, account codes, and amounts agree.
	2. Agrees voucher cover sheet fund totals to fund totals recorded on the warrant register.
	3. Agrees the warrant payee and amount to the payee and amount recorded on the voucher supplement for a sample of payees.
	4. Researches and resolves any differences. Signs and dates the voucher supplement and warrant register to indicate evidence of review.
	5. For each warrant, cancels vendor's invoice by stamping "paid" and recording voucher and warrant numbers on the invoice.
	6. Attaches warrant register to voucher, retains voucher by voucher number, and mails warrants to vendors.

Warrant Processing for Districts Approved to Assume Accounting Responsibility

Districts approved to assume accounting responsibility authorized by A.R.S. §15-914.01 prepare their own warrants. Specific procedures for preparing warrants may vary depending on the district's size and organization. However, districts must ensure there is effective internal control over the process. Warrants may be generated manually or electronically. The internal control over warrant issuance and information recorded on the warrants should be the same regardless of the method of preparation. Access to blank warrants and authorized signatures should be limited to authorized personnel, the custody of blank warrants and authorized signatures should be separated between 2 employees, and warrant preparation should be assigned to an employee not responsible for signing warrants.

Performed by	*Procedure*
Person 2	1. Receives the supply of sequentially numbered warrant stock from the printing company and examines the warrant stock to ensure that the complete order has been received.
	2. Records the beginning and ending warrant numbers, date received, and initials in the warrant control log. Stores warrants in a secure location in the district office.

Performed by	*Procedure*
	3. Examines the approved voucher to determine the number of warrants needed.
	4. Records the beginning and ending warrant numbers to be issued in the warrant control log. Warrants should be issued in numerical sequence. Initials and dates the warrant control log.
	5. Prepares the warrants from information recorded on the voucher supplement, such as payee, account codes, and amounts.
	6. Prepares the warrant register.
	7. Submits the completed warrants, voucher, warrant register, and all spoiled warrants to Person 3.
Person 3	8. Receives the completed warrants, voucher, and warrant register.
	9. Reviews the warrants by comparing the information recorded on the warrants to the information recorded on the voucher and warrant register to ensure that the warrants are correct.
	10. Marks spoiled and incorrect warrants as “VOID” on the warrant and in the warrant register. Returns the voided warrants to Person 2 for retention.
	11. For manual warrant process, obtains the authorized signature stamp or signature plate from Person 4. Signs and records date and time of receipt in the authorized signature plate control log. For electronic warrant processing, submits the warrant to Person 4 for approval and electronic signature through the accounting system.
	12. Records the beginning meter number from the warrant signature machine in the warrant signature machine meter control log.
	13. Processes completed warrants through the warrant signature machine.
	14. Records the ending meter number from the warrant signature machine and difference in the warrant signature machine meter control log.
	15. Signs and dates the log.

Performed by	*Procedure*
	16. Returns the signature stamp or signature plate to Person 4 along with the warrant register. Returns the voucher and warrants to Person 2.
Person 4	17. Receives the signature stamp or signature plate and warrant register from Person 3.
	18. Signs and records date and time of receipt in signature stamp or signature plate control log.
	19. Reconciles number of warrants processed through warrant signature machine (as recorded in warrant signature machine meter control log) to warrants recorded in the warrant register. Differences noted during reconciliation should be resolved immediately before warrants are distributed. Signs and dates warrant signature machine meter control log as evidence of reconciliation.
	20. Returns warrant register to Person 2.
Person 2	21. Forwards a copy of the voucher and warrant register to the county treasurer.
	22. Retains the voucher and warrant register by date or number.
	23. Mails the warrants to vendors.
	24. Records the numbers in the warrant control log of the voided warrants returned in step 10 and initials for receipt of the warrants returned.
	25. Retains the voided warrants in numerical sequence.

Credit Memos

Vendor credits applicable to current fiscal year expenditures may be applied against subsequent payments to the same vendor or may be refunded in cash. If refunded in cash, the district should reduce the expenditures recorded in the accounting records. Credits applicable to a prior fiscal year should be refunded and recorded as miscellaneous revenue in the fund that was originally designated on the invoice for which the credit was requested.

Procedures to return a partial or complete shipment of goods

1. The outgoing shipment should be documented by recording the shipping date, vendor name, item quantities and descriptions, related purchase order number, and invoice number. The normal receiving document used by the district should be clearly marked SHIPMENT OUT.
2. A receipt should be obtained from the vendor or carrier for the outgoing shipment.
3. A credit memo should be obtained from the vendor (future invoice credit, electronic reimbursement, or a refund check, as appropriate) that includes reference to the original invoice and purchase order number, quantity and description of returned items, and amount of credit allowed.
4. The same fund code should be assigned to the credit memo that was originally designated on the invoice for which the credit was requested. The credit memo should be filed by vendor in an open credit memo file, and applicable information should be recorded in a credit memo control log.
5. If a refund check is received, normal cash receipts verification procedures should be followed. However, if the credit is applicable to current fiscal year expenditures, the accounting entry is to increase cash and decrease the expenditure account instead of recording the receipt as revenue.
6. If only a credit memo is received, a deduction should be made from a subsequent invoice. The invoices selected for application of a vendor's credit memo should be processed as follows:
   a. The amounts appearing on the face of the invoices should be classified by account code as usual.
   b. A copy of the credit memo should be attached to the vendor's invoices submitted for payment.
   c. The voucher should be summarized by account codes of the invoices and credit memos as usual.
7. If the account codes of the credit memo differ from the original expenditures, the credit memo should be shown in the voucher supplement as a separate line item:
   a. With the fund, program, function, object, and unit code assigned to the credit memo.
   b. With the amount bracketed under the CODE AMOUNT column.
   c. With the description CREDIT MEMO following the vendor name.

Prepayments

In accordance with A.R.S. §15-905(N), districts may prepay any item that is normally prepaid in order to procure it or to receive a discounted price. Such items may include insurance premiums, magazine subscriptions, officiating services, conference registrations, hotel accommodations, airfare, service/maintenance contracts, membership dues, early payments of lease purchases to reduce interest costs, enrollment fees, or payments to vendors that do not

accept purchase orders, such as the federal government. Other items not specified may also be prepaid but must meet the same criteria mentioned above. Districts should prepare written documentation, signed by authorized district management, supporting the decision to prepay such items and retain it with expenditure supporting documentation.

When ordering items that do not meet the prepayment specifications of A.R.S. §15-905(N), the district must pay for them only after they are received. If a district ordered items on or before June 30 but receives them after June 30, the district cannot pay for the items with current year monies; it may pay for the items with monies of the new fiscal year if sufficient budget capacity exists. Canceling the old purchase order and issuing a new purchase order in the new fiscal year will help facilitate proper accounting for such items.

Year-End

At fiscal year-end, the district must prepare, for all levy funds (M&O, UCO, and Adjacent Ways Funds), a list of liabilities for goods or services received on or before June 30 that were not paid by that date. Such liabilities typically include accounts payable, salaries and wages payable, lease or financed purchase contracts payable, and construction contracts payable. To prepare the list, the district should review purchase orders, receiving reports, vendor invoices, and other relevant vendor information; payroll records; lease and financed purchase contracts and corresponding payment schedules; and construction contracts and certificates-of-payment. The District should prepare a summarized list by fund (and program for the M&O Fund) that includes the vendor name, receiving report date, purchase order number, and estimated cost as recorded on the purchase order, or actual cost if the district has received the invoice.

Advice of Encumbrance

School districts must prepare an Advice of Encumbrance in accordance with A.R.S. §15-906. The **Advice of Encumbrance form** is available on the Arizona Auditor General website. Districts must document on the form the amount by fund (and program for the M&O Fund) that must be encumbered to pay for levy fund liabilities of the prior fiscal year. The District should use the list of levy fund liabilities prepared at year-end to complete the Advice of Encumbrance. Totals on the list of levy fund liabilities should agree with those recorded on the Advice of Encumbrance.

The total amount to be encumbered from each fund should be equal to or less than the unexpended budget balance for levy funds. Districts must submit the Advice of Encumbrance to the CSS by July 18. Districts should retain a copy of the Advice of Encumbrance, the list of levy fund liabilities, supporting documentation, and submission documentation, such as an email or file share confirmation to the CSS. Districts should process payments for liabilities recorded on the Advice of Encumbrance on separate encumbrance vouchers. The CSS is authorized to draw warrants against the encumbered funds for a period of 60 days after the close of the fiscal year. After the 60-day encumbrance period, no further payments may be made from levy funds on any claims from the prior year.

Conflict of Interest (COI)

A.R.S. §38-503 requires that governing board members, officers, and employees make known any substantial interest they or their relatives have in any contract, sale, purchase, service, or decision, and refrain from voting upon or otherwise participating in any manner as an officer or employee in any contract, sale, purchase, or decision for which they have a substantial interest. Districts should develop a COI policy to help ensure that expenditure transactions are approved by district personnel and governing board members who do not have, and whose relatives do not have, a substantial interest in the transactions.

Districts should require governing board members, officers, and employees to complete or update COI disclosures annually. Management should review submitted COI forms to determine the appropriate actions to remediate all disclosed conflicts, document the remedial actions taken, and notify applicable district departments and personnel of the remediation plan for enforcement. Districts should also establish a process to notify the accounts payable department of any existing vendor conflicts so the individual with the conflict is not placed in a position to participate in any transaction with a vendor for which they have a conflict and is restricted from accessing electronic or paper records for the vendor. Management should also notify governing board members when board meeting agendas include action or discussion items for which the governing board members have vendor conflicts to allow the board member to appropriately recuse themselves from participating. If the district fails to act, the employee or board member with the substantial interest is still responsible for refraining from participating in any manner regarding matters related to the vendor. See the **Conflict of Interest section** for more information on the statutory requirements for COI as well as best practices for training, disclosure, memorialization, and remediation of disclosed COIs; penalties for failure to comply with the statutory requirements; and statutory definitions of relatives and substantial interests.

Further, A.R.S. §38-503(C) prohibits district employees from providing their district with any equipment, material, supply, or services and governing board members from providing their district with any services, unless the contract, sale, or purchase is awarded through public competitive bidding, regardless of the purchases' dollar amount. Additionally, A.R.S. §15-323 establishes a single transaction and annual purchase amount threshold for purchases of supplies, materials, and equipment from governing board members, based on the number of students attending the district. See the **Procurement section** for more information on the procurement requirements for purchasing from district employees and governing board members

_____ SCHOOL DISTRICT NO._____

PURCHASE REQUISITION

Req. no. (sequentially prenumbered)	
Date:	

	FOR DISTRICT OFFICE USE ONLY	
Department:	Fund:	
Date required:	Program:	
Requisitioner:	Function:	
Date prepared:	Object:	
	Unit:	

			FOR DISTRICT OFFICE USE ONLY Price Quotes		
Quantity	Description	Unit	Vendor #1	Vendor #2	Vendor #3
			$	$	$

Estimated cost $_____

Department approval_____ Date _____

District office approval _____ Date _____

Selected vendor _____ Cost _____

Vendor no. _____ P.O. no. _____ P.O. date _____

FOR DISTRICT OFFICE USE ONLY

Rejected by _____ **Date** _____

Reason _____

_____ SCHOOL DISTRICT NO._____

PURCHASE ORDER

P.O. no.	(sequentially prenumbered)
Req. no.	
Prepared by	
Date	

TO: (Vendor)

FROM: (School District)

Terms:	
Expected delivery date:	
Place of delivery:	
Do not back order—Unless otherwise indicated, all prices are FOB destination.	

Quantity ordered	Description	Quantity Received	Units	Unit price	Amount
					$

Total $_____

SUMMARY BY ACCOUNT CODE					
Fund	Program	Function	Object	Unit	Amount

Total $_____

I certify that the expenditure described above is for a valid public purpose and that funds have been appropriated or are otherwise available for payment of any claims made against this encumbrance, and that if the available funds are from a federal grant, contract, or source, this purchase is authorized under the terms of such grant, contract, or source.

Approved by

Vendor (Original)
District (Copy)

_____ SCHOOL DISTRICT NO._____

RECEIVING REPORT

P.O. no.	(sequentially prenumbered)
Req. no.	
Prepared by	
Date	

TO:		FROM:	
	(Vendor)		(School district)

Terms:	
Expected delivery date:	
Place of delivery:	
Do not back order—Unless otherwise indicated, all prices are FOB destination.	

Quantity ordered	Description	Quantity received	Units	Unit price	Amount
					$
				Total	$

Other comments

I certify that the items described above were received, counted, and inspected by me, and the condition was satisfactory except as otherwise noted.

Signed

Received by requisitioner _____ Date _____

Date (if more than one delivery, indicate dates by items above)__ _____

CONTENTS

Topic	Page
INTRODUCTION	1
IMPLEMENTING A CREDIT CARD OR P-CARD PROGRAM	1
POLICIES	2
PROCEDURES	3
Card Issuance	4
Transaction Controls	5
Transaction Red Flags	8
P-Card Specific Processes	9
Rebates and Incentives	9

INTRODUCTION

Credit cards allow authorized district employees to purchase goods or services that will be billed on a charge account and paid at a later date by the district. Examples include bank credit cards that do not control where a purchase is made or what is purchased and vendor-specific credit cards, such as for home improvement stores or discount retail stores that can be used only at those vendors' locations, but do not control what is purchased. Purchasing cards (p-cards) are credit cards that can be limited to specific vendor types using merchant category codes and offer more control of card limits. Using credit cards and p-cards can create a greater risk of unapproved and fraudulent transactions. Therefore, districts should implement effective internal control to help reduce that risk.

Because of the relatively high risk associated with card transactions, districts should establish and maintain effective policies and procedures to prevent loss or misuse including appropriate investigation and resolution of transactions that appear improper. Safeguards also need to be in place for card issuance and control. Effective internal control not only helps safeguard the district from loss but can protect employees using credit card or p-cards from accusations of misuse.

Internal control over expenditures should be adequate to:

- Ensure that card expenditures are appropriate and authorized.
- Verify compliance with spending limits and district policies.
- Minimize errors and prevent fraud, theft, and misuse.

Districts should tailor internal controls to their specific needs. The recommended controls described in this section are provided as examples of sound financial and administrative practices that districts can use to ensure that evidence of card issuance and transaction controls are documented and retained. Districts may use other controls if they provide at least the same level of internal control. In addition to this section, districts should follow the expenditure procedures requirements in the **Expenditures section**, conflict-of-interest disclosure and remediation requirements in the **Conflict of Interest section**, and the retention schedules provided in the **Records Management section**.

IMPLEMENTING A CREDIT CARD OR P-CARD PROGRAM

Prior to implementing a credit card or p-card program, districts should analyze their purchasing practices, including what is purchased, who is making the purchases, and vendors purchased from, to determine if a credit card or p-card program would be beneficial for the district. Effective use of credit cards and p-cards can help districts streamline the acquisition process for obtaining goods or services directly from vendors and can provide a method for making purchases from vendors that do not accept purchase orders. Districts should consider whether certain purchases could be made more efficiently and cost effectively with a credit card or p-card. Cost analysis

should include the cost of staff time to process traditional transactions versus credit card or p-card purchases and to effectively monitor credit card and p-card purchases due to the greater risk of unapproved and fraudulent transactions.

If the analysis indicates the implementation of a credit card or p-card program would be advantageous to the district and the district decides to implement such a program, the district should select a credit card or p-card vendor through a competitive selection process. The district should follow the School District Procurement Rules or guidelines for written quotes, as applicable. Otherwise, the district should evaluate programs offered by multiple vendors to ensure it receives the best value and the program that best fits its needs.

Some questions that should be considered in selecting a credit card or p-card vendor include:

- Does the program allow for online management? If so, what features and functions are available?
- Does the vendor charge annual fees or per card issuance or replacement costs?
- Does the vendor provide automated approval and reconciliation software, and is it compatible with the district's accounting software?
- Is the program easy to use, including "user-friendly" reports that district management can use to monitor the program?
- Does the program have a comprehensive system of controls that can be managed on a per card basis?
- Does the card provider offer card use and system training material and customer support?
- Does the program offer rebates, and how are the rebates administered?
- Does the program have the ability to create and manage multiple levels of online security and authority?
- How long does the vendor retain records?

Once the vendor has been selected, the district should ensure policies and procedures are in place to manage the program's adoption and implementation.

POLICIES

District governing boards that choose to use credit cards or p-cards should establish written policies and distribute them to all authorized card users and employees with credit card or p-card processing responsibilities. The district's credit card or p-card policies should, at a minimum, address the following to establish effective internal control over credit cards and p-cards:

1. The district policies should establish specific guidelines to be used in determining which employees should be issued cards and the specific restrictions and limits that should be placed on individual cards, including the maximum single transaction amount and monthly purchase

limits that may be authorized. In setting these guidelines, the governing board should consider how many individuals should be allowed to commit district resources through card transactions and the aggregate amount of district resources that could be committed by card users if they were to maximize their spending limits. Districts should limit the number of card users to the minimum necessary for effective purchasing to maintain adequate control of district resources, minimize the oversight cost for card programs, and reduce the risk of loss due to unapproved and fraudulent transactions.

2. The district policies should outline the purposes for which the cards may be used and outline any unauthorized purchases, including prohibiting cash withdrawals. The policies should also describe disciplinary action for misuse. Card users should be held personally liable for card transactions that are contrary to any laws, rules, policies, and procedures, including applicable penalties and interest.
3. The district policies should require annual training for all card users on the district credit card and p-card policies, including additional training for those involved in card issuance, approval, and payment processing, describing their role in preventing and detecting inappropriate or unallowable purchases.
4. The district policies should require all card users to sign card-user agreements to acknowledge their understanding of the district's credit card or p-card use policies and procedures, including any disciplinary actions for misuse.

PROCEDURES

Districts should establish written procedures to enforce and uphold the governing board's adopted credit card and p-card policies. The district's procedures should, at a minimum, address the following to establish effective internal controls over credit cards and p-cards:

1. Districts should separate the responsibilities for issuing cards; requesting, authorizing, and executing purchases; and payment processing. Small districts unable to adequately separate responsibilities due to insufficient staff size must establish and document additional supervisory review procedures for employees performing more than 1 of these responsibilities. The review procedures must provide adequate controls to reduce the risk of unapproved or fraudulent transactions. Districts could consider training multiple employees to perform each procedure and periodically rotate those responsibilities. Adequate separation of responsibilities ensures that no single employee has exclusive control over and knowledge of a procedure.
2. Districts should establish procedures that provide oversight of card issuance and use, including ensuring authorized card users complete required training, sign card-user agreements, and submit all required supporting documentation.
3. Districts should designate an employee who is not a card user to coordinate card accountability for the district office, each school site, or department that uses the cards.
4. Unused cards should be physically safeguarded and access to them limited to authorized personnel who are not card users.

5. Districts should establish procedures for canceling or inactivating a card.
6. All card transactions should be preapproved prior to use of the card by an authorized district official who is not a card user.
7. Districts should establish procedures for prepaid transactions.
8. Districts should prohibit card users from splitting purchases into smaller transactions to circumvent procurement requirements or to avoid individual card-user purchase limits. Districts should monitor transactions across all card users made with the same vendor or for like items to ensure proper procurement procedures are followed.
9. Districts should establish procedures for handling disputed charges.
10. Districts should require card users to submit receipts or other supporting documents to the district office after the transaction is complete and before the billing statement is received.
11. An employee who is not a card user should reconcile the supporting documents to the billing statement before the statement is paid and investigate and resolve any discrepancies. Evidence of the reconciliation should be documented and retained.
12. Promptly record all credit card transactions in the districts' accounting records and classify transactions accurately in accordance with the **Chart of Accounts section**.
13. Districts should establish procedures to pay card statements before the due date to avoid finance charges and late fees.
14. Districts should establish procedures to investigate and resolve transactions that appear inappropriate.
15. Districts should establish procedures for rebates and incentives received.

Card Issuance

The employee issuing cards should not be an authorized card user. Cards should be issued only to district employees with a legitimate need and whose use of the card is necessary for effective purchasing. Cards should be issued in the district's name and, if assigned to a single user, the user's name. Cards cannot be used by anyone other than the authorized cardholder. Districts should review authorized card users annually to determine whether authorized card users or spending limits need to be adjusted, based on the district's need.

Limits

The employee authorized to issue cards should approve card users and set single transaction limits and monthly purchase limits for each card user, based on the board-approved policies. The purchase limits should be established based on the types of transactions for which the card is to be used rather than an arbitrary amount. Dividing purchase transactions to circumvent aggregate purchase limits or single purchase limits is prohibited.

Training

Districts should require annual training for all card users and any other employees involved in card tracking, payment processing, and card-use oversight. The extent and type of training provided to employees should be appropriate in relation to individual authority and responsibility and the amount of transaction authorization given to the card user.

Districts should also make card users aware of any laws, regulations, contractual agreements, policies, and procedures that require the card user to acquire goods and services from specific sources, such as established contracts and blanket purchase orders. Districts should keep training materials current and document when each employee was trained.

Card User Agreement

All card users, including users of cards issued only in the district's name, should sign a card-user agreement acknowledging receipt of training on allowable card use and understanding of the district's policies and procedures. The agreement should authorize the district to withhold wages for the amount of any improper purchases, including applicable penalties and interest, if the card is misused.[1] The agreement should also outline other possible disciplinary actions for misuse of district cards, including loss of card-use privileges or possible personnel actions.

Tracking

The employee issuing cards should maintain a complete list or log of card users to track possession of all cards. Cards in the district's possession should always be maintained in a securely locked location that is only accessible to the employee who oversees card issuance. Cardholders should take reasonable steps to ensure the security of the cards assigned to them to prevent it from being stolen or otherwise compromised. Districts should verify that all cards are accounted for at least annually, including those issued in the user's name. Further, districts should cancel or deactivate cards upon loss, theft, or misuse; when a card is no longer needed; or upon the card holder's separation from district employment, and recover the card, if possible.

Districts should establish a process to check out cards issued only in the district's name. A specific employee should be designated to track who has the cards and account for all the cards' transactions. The employee should maintain a credit card log to ensure that all cards are signed out by employees when in use, returned in a timely manner with supporting documentation, and signed back in upon return. Cards should only be checked out to approved employees who have completed the required annual training and signed an annual card-user agreement.

Transaction Controls

The internal control procedures established for card usage should be designed to ensure purchases are properly authorized; for an appropriate district purpose; within budget limits for budget-controlled funds or available cash balance for cash-controlled funds; and made in

[1] If wages are withheld for improper purchases from a nonexempt employee under the Fair Labor Standards Act (Act), districts must ensure that remaining wages are sufficient to comply with the Act's minimum wage and overtime compensation requirements.

accordance with the School District Procurement Rules and guidelines for written quotes, as applicable. Procedures should also be designed to help prevent or detect fraudulent and abusive transactions. This should be achieved through advanced approval of purchases and review of supporting documentation during the payment process.

Advance Approval

To help prevent unauthorized transactions from occurring and ensure compliance with budget limits, cash balance restrictions, and procurement requirements, districts should require card purchases to be reviewed and approved by an authorized employee prior to ordering goods and services. Districts can use purchase requisitions or purchase orders to facilitate advance approval; however, alternative procedures may provide a similar level of control.

Districts should document the preapproval process, including verification that the purchase is for an appropriate district purpose; that the cash or budget capacity is available, as applicable; and that staff followed applicable procurement requirements. District staff may issue purchase orders for individual transactions or blanket purchase orders for frequent purchases such as maintenance supplies or food service items. Card users should be required to purchase items through existing contracts that have been properly procured, if available.

Supporting Documentation

Employees using cards should submit all supporting documentation to the district upon checking in the card, or at least monthly for cards assigned to specific employees. To allow for appropriate review of the purchase, supporting documentation should include:

- Purchase requisition or purchase order, invoice, packing slip, receiving report, and transaction receipt or transaction log, as applicable.
- The supporting documentation should include a detailed description of the item(s) purchased and the specific district purpose for the expenditure; the card user's name, signature, and transaction date; and, for fuel or vehicle repair purchases, the district vehicle license number and odometer reading.
- If employees do not provide original receipts because they are lost or illegible, the card user should request a copy of the receipt from the vendor or complete an affidavit of lost receipt detailing the purchase date, vendor, product, cost, tax, and other charges, and reason the receipt is not available.

Certain transactions, such as items purchased online or by phone, may result in card charges before the district receives goods or services. District procedures should describe when and how such transactions are allowed, limiting them to items that are normally prepaid in order to procure them or to receive a discounted price. See the **Expenditures section** for more information on items that may be prepaid. Procedures should also be adequate to verify and document the receipt of any prepaid items. Items purchased online must be delivered to a district address and verified as

received by a district employee. Items should not be delivered to any nondistrict address. Online delivery confirmations are not sufficient as a receiving report.

Payment Process

Districts should ensure that approval, verification, and payment responsibilities are separated among different employees. A copy of billing statements should be sent directly to the district so the employee or department authorized to make payments on cards is aware of outstanding balances and payment due dates. Alternatively, electronic statements may be obtained if provided by the financial institution. If electronic access to the credit card is used, districts should limit access to it only to authorized personnel on authorized devices, and to the extent possible, only for accessing the credit card statement. Districts should prohibit accessing district accounts on personal devices such as cell phones to reduce the risk of misuse. All authorized personnel should properly log off the website after statements are retrieved, and passwords should not be saved on the device used.

The card user should be provided a copy of the billing statement by the financial institution or the district. Upon receipt of the billing statement, the card user should complete a transaction log and submit the log, billing statement, and all other supporting documentation for review and approval.

The reviewer should:

- Confirm that all supporting documentation is complete and was submitted in a timely manner.
- Verify that each purchase transaction appearing on the card user's billing statement is an appropriate, legitimate district purchase that was preapproved and within the individual's authorized purchase limits. If the financial institution provides electronic access to transaction detail throughout the billing cycle, districts may wish to review transactions on an ongoing basis rather than wait until a billing statement is received. Investigate and document resolutions for any transactions that appear inappropriate.
- Verify that no cash advances have been made.
- For travel expenses, verify that expenses do not exceed allowable reimbursement amounts (see the **Travel section**) and are supported by a properly approved travel claim.
- Document the reconciliation of the billing statement to transactions and related supporting documentation and sign/initial and date the reconciliation to document responsibility for and timing of review.
- Submit reconciled statements and supporting documentation to the employee or department authorized to make payments on cards.

All receipts should be reconciled and reviewed at least monthly and, if possible, prior to payment of the monthly bill. Card balances should be paid in full each billing cycle and made in a timely manner to avoid late fees and finance charges. If the reconciliation or review identifies any items

that were not a valid district charge, it should be disputed following the district's dispute-handling procedures.

Periodic Reviews

District management should periodically compare budget and actual expenditures to ensure purchases remain within budget or available cash balance, as applicable. Districts should also monitor types of purchases and vendor usage to ensure compliance with the School District Procurement Rules or guidelines for written quotes, particularly related to like-item cumulative purchases and items that are not under existing contracts. See the **Procurement section** for more information on like-item purchases. If card users are not complying with budget restrictions, procurement requirements, or any other card policies and procedures, appropriate disciplinary action should be taken.

District management should conduct periodic compliance audits to test card transactions for adherence to district policies. These audits should test the entire transaction process from the card's issuance to payment of the monthly bill. The audits should be performed on a sample basis by an employee not involved in issuing cards or processing transactions to verify that card users and other employees involved with the processing of transactions are complying with all district card policies and procedures. The individual conducting these audits should retain documentation that shows what was reviewed, any findings noted, and corrective action taken, if necessary, and initial and date to document responsibility for and timing of the audit.

Transaction Red Flags

Authorized individuals reviewing card transactions and monthly statements should be aware of possible warning signs of improper or fraudulent transactions (red flags). The reviewer should investigate purchases that exhibit red flags or otherwise appear to be out of the norm. Possible red flags may include:

- Purchases that appear to be of a personal nature.
- Transactions that occur during nonwork hours.
- Purchase documents that appear to be altered.
- Purchases without detailed receipts, shipping documents, or receiving reports.
- Transactions consisting of unnecessary or unauthorized items, e.g., premium grade fuel, gift cards, lottery tickets, cash withdrawals, alcohol, or in-room movies and games.
- Charges for meals already reimbursed through a travel claim or purchased at local restaurants.
- Excessive fuel purchases based on the number of miles driven.
- Purchases from vendors with which the employee has a conflict of interest.

- Multiple same-day purchases with the same vendor, particularly purchases that are just below the user's transaction limit..
- Purchases from vendors outside existing contracts when existing contracts are available.
- Purchases inconsistent with the employee's job responsibilities.

District management should investigate red flags and document their conclusions. Not every red flag is the result of fraud. Improper transactions can also indicate that an error has been made or further employee training is needed. Based on their conclusions, district management should consider whether disciplinary action is required.

P-Card Specific Processes

Districts should use the merchant category codes for p-cards to block unauthorized vendors and purchases and apply the purchasing limits necessary to meet operating requirements.

Districts may also use p-cards to pay for previously acquired goods or services. A payment transaction satisfies an obligation to pay a vendor for goods and services already received and establishes a corresponding obligation to pay the p-card issuer. Employees who use the p-card to complete payment transactions are most likely those responsible for managing the district's accounts payable; therefore, higher spending limits may be appropriate for employees who make payment transactions.

District policies should specify whether p-cards may be used for payment transactions and establish separate maximum limits for p-card payment transactions. Supporting documentation and billing statements should be received and reconciled by someone other than the card user before payment is made to the card issuer.

Rebates and Incentives

Credit cards or p-cards may contain provisions for districts to receive cash rebates or incentives (rebates). When rebates are received, the district should treat the rebate as miscellaneous revenue or as a reduction of expenditures.

If the rebate is received in the same fiscal year as the original expenditure, including the encumbrance period, the rebate should be recorded as a reduction of the original expenditure. If the rebate is received after the close of the fiscal year in which the original expenditure was made, the rebate should be recorded as miscellaneous revenue in either the fund of the original expenditure or the Auxiliary Operations Fund. When determining whether to record the rebate in the fund of the original expenditure or the Auxiliary Operations Fund, the district should consider how easily the rebate can be associated with the fund, program, function, and object code of the

original expenditure and the dollar amount of the related rebate. For example, a rebate on fuel cards used solely for student transportation vehicles could be easily identified; however, a rebate for various types of transactions on a general use credit card may not be practical to identify with the original expenditure coding. Rebates recorded as miscellaneous revenue in the Auxiliary Operations Fund may be used for any district purpose.

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	2
PROCEDURES	3
Annual Procurement Planning and Analysis	3
Written Quote Guidelines	6
School District Procurement Rules	7
Purchasing from Employees and Governing Board Members	12
Contract Administration	13
Conflict of Interest	13
Gift Prohibitions	14

Sample Forms

PROCUREMENT FORECASTING TEMPLATE	15
SOLE SOURCE WRITTEN DETERMINATION	16
EMERGENCY PROCUREMENT WRITTEN DETERMINATION	17

INTRODUCTION

Procurement is the buying, purchasing, renting, leasing, or otherwise acquiring of any materials, services, construction, or construction services. Procurement also includes all functions that pertain to the obtaining of any material, service, construction, or construction services, including description of requirements, selection and solicitation of sources, preparation and award of contract, and all phases of contract administration. Procurement is a strategic process that helps districts determine the most cost-effective and advantageous method to the district for acquiring the items and services they need.

The policies and procedures for sourcing, purchasing, and managing a school district's purchases of materials, services, goods, construction, or construction services are critical operational functions that demand strong internal controls and oversight to:

- Ensure the district obtains the best value for the public monies it spends.
- Prevent conflicts of interest from influencing district purchases.

Arizona Revised Statutes (A.R.S.) §§15-213 and 15-271 requires districts to follow procurement practices adopted by the Arizona State Board of Education (State Board) and the guidelines for written quotes as prescribed in this section.

The School District Procurement Rules (Rules) prescribed in the *Arizona Administrative Code* (A.A.C.) are the authoritative requirements governing procurement for school districts and are based on the Arizona Procurement Code (A.R.S. Title 41, Ch. 23), created by Laws 1984, Chapter 251, which is the legislative authority and requirements for procurement. The Rules' purpose is to:

- Simplify, clarify, and modernize the law governing procurement.
- Permit the continued development of procurement policies and practices.
- Make the procurement laws as consistent as possible.
- Provide for increased public confidence in the procedures followed in public procurement.
- Ensure the fair and equitable treatment of all persons who deal with the procurement system.
- Provide increased economy in procurement activities and maximize to the fullest extent practicable in purchasing value for public monies.
- Foster effective broad-based competition within the free enterprise system.
- Provide safeguards for the maintenance of a procurement system of quality and integrity.

In addition to this section, districts should follow the requirements for expenditure processing in the **Expenditures section**, conflict-of-interest disclosure and remediation requirements in the **Conflict of Interest section**, general and application controls for automated systems in the **Information Technology section**, and the retention schedules provided in the **Records Management section**.

POLICIES

District governing boards should establish written procurement policies and distribute them to all employees with procurement responsibilities. The district's procurement policies should, at a minimum, address the following to comply with legal requirements and establish effective internal control over procurement:

1. Districts must follow the Rules (A.A.C. R7-2-1001 et seq.) adopted by the State Board for purchases that exceed $100,000. A.R.S. §§15-213 and 41-2535
2. Districts must follow the USFR guidelines for written quotes for purchases costing at least $15,000 and less than $100,000. A.R.S. §15-271
3. In accordance with A.A.C. R7-2-1007, the governing board may, in a public meeting, adopt a policy to delegate procurement authority to a designated district employee or employees. Delegated procurement authority may include but is not limited to the following:
    - Authority to make determinations required by the Rules, Articles 10 and 11.
    - Authority to award contracts.
    - Authority to make sole source and emergency procurements.
    - Authority to approve change orders and contract modifications.

    Delegated activities and functions must be adequately separated among individuals so that one individual does not have complete authority over an entire procurement. Such delegation must specify:

    - Each employee's title.
    - The activity or function authorized.
    - Any limits or restrictions on exercise of the delegated task, including the maximum total cost of any procurement.
    - Whether the task may be further delegated.
    - The duration of the delegation.
    - The conditions and procedures for modifying and revoking the delegation.

    Delegation of procurement authority does not remove the responsibility of the governing board to ensure compliance with the Rules.
4. District employees, their supervisors, and others who participate in the planning, recommending, selecting, or contracting for materials, services, goods, construction, or construction services of a district or school purchasing cooperative are prohibited from accepting any personal gift or benefit from a person or vendor that has secured or has taken steps to secure a contract, purchase, payment, claim, or financial transaction with a school district or school purchasing cooperative. Districts should provide training and guidance to

applicable employees and supervisors to make them aware of such prohibition, and maintain documentation of the attendees and training date(s). A.R.S. §15 213(N) and A.A.C. R-7-2-1003

5. Districts must follow the requirements and restrictions prescribed in A.R.S. §§15-323 and 38-503(C) related to purchasing any equipment, material, or services from District governing board members and employees.
6. Prior to initiating procurement for constructing school buildings and purchase or lease of school sites, the governing board must obtain approval by a vote of the district electors in accordance with A.R.S. §§15-341 and 15-342(25), except when the buildings and sites are totally funded from one or more of the following:
    a. Monies in the Unrestricted Capital Outlay (UCO) Fund. The estimated cost may not exceed $250,000 for a district that uses a small school adjustment prescribed in A.R.S. §15-949.
    b. Monies distributed from the School Facilities Oversight Board established by A.R.S. §41-5701.02 or by the School Facilities Division within the Department of Administration pursuant to A.R.S. Title 41, Chapter 56.
    c. Monies specifically donated for constructing school buildings.

    A.R.S. §15-342(25) does not eliminate the requirement for an election to raise revenues for a capital outlay override pursuant to A.R.S. §15-481 or a bond election pursuant to A.R.S. §15-491.

PROCEDURES

Districts should establish written procedures to enforce and uphold the governing board's adopted procurement policies. The following are recommended procedures for establishing and maintaining effective internal controls over procurement.

Annual Procurement Planning and Analysis

Prior to the start of each new fiscal year, districts should analyze anticipated purchases for the upcoming fiscal year to determine the level of competitive purchasing required (e.g., written quotes, competitive sealed bids/proposals, cooperative contracts, sole source, or other procurement methods governed by the Rules [A.A.C. R7-2-1001 et seq.]). Districts should consider like items and the district's need for multiterm contracts (described below) in their annual procurement analysis. Purchases should not be split, divided, or structured in a manner that could circumvent procurement requirements.

Districts should document the annual procurement planning and analysis performed for the new fiscal year and continue to monitor and analyze spending throughout the year to identify competitive purchasing requirements needed for purchases not anticipated in the initial analysis (see sample **Procurement Forecasting Template**). Districts should then initiate appropriate competitive purchasing for the new fiscal year based on the analysis.

Like Items

When determining the appropriate level of competitive purchasing required, districts should consider the total dollar amount that may be spent on like-item purchases, across all purchasing methods (e.g., purchase order, credit card, or purchasing card). Like items are goods or services that are similar in type, purpose, or function and are grouped using a reasonable, documented classification method. Districts may use methods such as:

- Commodity or category codes if available within the district's financial system.
- District defined item categories or grouping structures.
- Standardized item descriptions or naming conventions.
- Functional groupings based on how items are used within the district or how vendors group items for pricing considerations.
- Other documented classification methods that reliably identify items of a similar type, purpose, or function.

If the amount of the goods or services that will be needed during the year is uncertain, districts should analyze prior-year cumulative purchases of like items and adjust the estimate for any changes that might affect the amount of the goods or services needed (e.g., increased enrollment, new school). The analysis of prior-year cumulative purchases should consider the total of all like-item purchases from all vendors. If like items were purchased from multiple vendors, all such purchases must be combined. If a vendor provides multiple unrelated goods or services, non-like-item purchases from that vendor should be considered separately when determining the level of competitive purchasing required.

When determining whether purchases are for like-items or non-like-items, districts should consider whether the individual purchases can be combined for pricing considerations from 1 vendor. The following are examples of ways a district may consider analyzing purchases to determine like items:

- **Staff training**—If a district anticipates holding several different training topics for staff throughout the year, they may be able to identify a single vendor that is able to provide sessions on all training topics needed, making the purchases like-items. Further, vendors may provide discounted pricing for combining multiple training topics in 1 purchase. However, if the district cannot identify a vendor(s) that provides sessions covering all desired training topics, the varying training purchases could be considered non-like items.
- **Tires**—If a district anticipates needing a substantial number of tires in the upcoming year, it should consider the types of tires it needs and the vendors that provide them. It's possible the district may be able to identify vendor(s) that will provide quotes or bids that meet all the district's tire needs, making the purchases like items. However, if the district needs specialty tires that are only provided by a particular vendor(s), those specific tires may not be considered like items, but all other tires the district needs may still be grouped together as like items for determining the level of procurement needed.

Districts should document the method and reasoning used to group like items and identify non-like-items in their analysis and apply it consistently throughout the fiscal year. The method used should enable the district to:

- Identify purchases belonging to the same type or category of materials, services, goods, construction, or construction services, regardless of vendor.
- Aggregate annual expenditures across all purchasing methods, including purchase orders and credit or purchasing cards.
- Determine whether total spending for a category meets or exceeds competitive purchasing thresholds.
- Support a reasonable conclusion of how like-items were defined, grouped, and analyzed for pricing considerations.

Multiterm Contracts (A.R.S. 15-213[L]; A.A.C. R7-2-1093)

When determining the level of competitive purchasing required, a district should consider whether it will use a multiterm contract and analyze the total expenditures that will be made over multiple years. For example, if a district wants to obtain pricing for 3 years on an item, it could do so by written quotes if the total anticipated expenditures over the 3 years were not expected to be more than $100,000, or by solicitation for bids if expected to be more than $100,000.

Districts may enter into contracts for up to 5 years. Multiterm contracts must include the terms and conditions of renewal or extension, if any, in the solicitation for bids, proposals, or quotes, and monies must be available for the first fiscal year at the time of contracting. Contracts for materials or services and contracts for job-order-contracting construction services may be entered into for more than 5 years if, before the procurement solicitation is issued, the governing board determines in writing that a contract of longer duration would be advantageous to the district. Payment and performance obligations for succeeding fiscal years are subject to the availability and appropriation of monies.

Before using a multiterm contract, for purchases over $100,000, the district’s governing board must determine in writing that:

- The estimated requirements cover the contract period and are reasonable and continuing.
- A multiterm contract will be advantageous to the district by encouraging effective competition or otherwise promoting economies in district procurement.

Multiterm contracts must include a clause specifying that the contract shall be canceled if monies are not appropriated or otherwise made available to support the continuation of performance in a subsequent fiscal year. Additionally, multiterm contracts should include the time period that the pricing is valid, that the vendor will honor the pricing for that time period, and that, while the district intends to purchase certain quantities, all purchases are subject to funds availability.

Written Quote Guidelines—A.R.S. §15-271 and A.A.C. R7-2-1002(C)(3)

These guidelines are the minimum requirements that districts must follow for purchases below the $100,000 threshold. For purchases costing at least $15,000 and less than $100,000, districts should obtain written price quotes from at least 3 vendors.

Requests for written quotes should be issued in sufficient time and with adequate detail to allow vendors to effectively respond. Based on the type of purchase being requested, quotes should include the following information, as applicable:

- Offer submission requirements, including offer due date and time, where offers will be received, and offer acceptance period.
- Any purchase description, specifications, delivery or performance schedule, and inspection and acceptance requirements.
- The minimum information that the offer must contain.
- Whether negotiations may be held.
- Any contract options, including renewal or extension.
- Uniform contract terms and conditions by text or reference.
- Any other terms, conditions, or instructions specific to the purchase.

Districts should consider issuing the original request for quotes to more than 3 vendors and should continue to seek out additional vendors until at least 3 quotes are obtained. If a district has exhausted all known vendor options that provide the required good or service, it should retain documentation supporting the vendors contacted that did not respond. Districts should retain the following in a district procurement file or with the related requisition form or purchase order:

- The written quotes received from all vendors contacted.
- Documents to support all vendors contacted, including the vendor name, person(s) contacted, email address or telephone number, and the specifications provided in the request for quotes. This should include vendors that did not provide a quote, including the reason no quote was provided, if known.

Districts can consider obtaining written quotes through information available on vendor websites. However, districts must ensure the products or services provided by the different vendors are comparable and the pricing listed is current, and maintain documentation to support the pricing that was available from all considered vendors at the time of purchase. Districts should still consider contacting vendors directly to inquire about discounted pricing that may be available for school districts, particularly for bulk purchases.

Districts should award the purchase to the vendor that meets the specifications included in the request for quotes determined to be most advantageous to the district and document the rationale for the determination if a vendor is selected based on factors other than the lowest price. After a

vendor is selected, districts should issue a purchase order or written contract for the purchase before ordering goods or services.

School District Procurement Rules

Districts must follow the Rules adopted by the State Board in A.A.C. R7-2-1001 et seq. for purchases exceeding $100,000 except for 16 exempted items described in A.A.C. R7-2-1002(C) including the following:

- Expenditures from student activity monies as defined in A.R.S. §15-1121, if no district funds are involved. A.A.C. R7-2-1002(C)(6)
- Expenditures for governing board adopted textbooks as defined in A.R.S. §§15-721 and 15-722, if purchased from the publisher. A.A.C. R7-2-1002(C)(7)
- Purchases of professional certifications, professional memberships, conference registrations, conference hotels and airfare that meets Arizona Department of Administration General Travel Principles and Policies. A.A.C. R7-2-1002(C)(12)

Procurement methods prescribed in the Rules include but are not limited to invitations for bid (IFB) (A.A.C. R7-2-1021 through 1037), requests for proposals (RFP) (A.A.C. R7-2-1041 through 1050), construction (A.A.C. R7-2-1100 through 1115), cooperative purchasing (A.A.C. R7-2-1191 through 1196), sole source procurements (A.A.C. R7-2-1053), and emergency procurements (A.A.C. R7-2-1055 and 1056). Included below are commonly used provisions and terms from the Rules to help districts understand where to find the requirements within the Rules. Districts must follow the specific requirements in the Rules and establish procedures that ensure they comply with those requirements, based on the procurement method used.

Fair and Reasonable

The Rules require districts to document that the pricing and contract terms are fair and reasonable. Districts can consider the following when making and documenting a fair and reasonableness determination:

- A price that was previously paid when the same goods or services were purchased.
- Established catalog and/or market prices.
- If the price was established by law or rule.
- Relevant, historical price data.
- Estimated value, scope, complexity, and nature of the project, goods, or services.
- Government or educational discount price programs.

Cooperative Purchasing—R7-2-1004 and 1191 through 1196

Districts may participate in, sponsor, conduct, or administer a cooperative purchasing agreement for the procurement of any materials, services, specified professional services, construction, or construction services with 1 or more eligible procurement units in accordance with an agreement

entered into between the participants. Cooperative purchasing agreements must not be used to circumvent the Rules. A district using a contract awarded by another eligible procurement unit must only purchase awarded materials, services, specified professional services, construction, or construction services in compliance with the terms, conditions, and prices in the contract. The governing board may also authorize purchases under a current General Services Administration (GSA) contract. When a district makes a purchase through a cooperative purchasing agreement, the district must enter into a written agreement or contract with each cooperative or lead district it uses and make a written determination for each purchase that documents:

- The reasons for using the cooperative agreement.
- How the determination was made.
- The rationale for the vendor selected.

Additionally, for GSA contracts, the determination must include:

- The price for materials or services is equal to or less than the contractor's current federal supply contract price with the GSA and is fair and reasonable.
- The contractor has indicated in writing that the contractor is willing to extend the current federal supply contract pricing, terms, and conditions to the district.
- The purchase order adequately identifies the federal supply contract on which the order is based, including the name of the contractor, contract number, and procurement description.
- The purchase contract is cost effective based on price, quality, and other relevant factors, and is advantageous to the school district.

A copy of the cooperative purchasing agreement or contract and the written determinations for each purchase must be retained in the procurement file.

Due Diligence for Cooperative Purchasing—R7-2-1191(D)

Districts are responsible for performing due diligence to ensure purchases completed through cooperative purchasing agreements or contracts comply with the Rules. The appropriate timing and amount and complexity of due diligence to be performed by a district will vary based on the procuring entity with which the district is participating and any contract terms. Districts should ensure due diligence was performed within a reasonable time frame using a cooperative purchase contract.

A district may meet its due-diligence requirements by obtaining and reviewing a cooperative or lead district (entity) compliance questionnaire, which is a systematic review of a school purchasing cooperative or school districts purchasing practices, completed by a certified public accountant in connection with an audit, completed within the past year. The Arizona Auditor General, pursuant to A.R.S. §15-213(F), has prescribed the Procurement Compliance Questionnaire for cooperatives and the USFR Compliance Questionnaire, Procurement questions for lead districts to facilitate such a review. Districts should review the purchasing cooperative's or lead district's completed compliance questionnaire for "no" answers and any related findings. If the entity had no findings,

little or no additional due diligence may be necessary. Districts should consider any other information available on the entity's procurement practices.

If an entity did not have a compliance questionnaire completed or the compliance questionnaire had significant findings, the district should perform more extensive due diligence such as reviewing the procurement files for a sample of the contracts it plans to use to ensure the purchasing cooperative or lead district complied with the Rules when awarding the contract. Districts may also perform due diligence for every contract procured through cooperative purchasing. Districts should use the procurement questions in the compliance questionnaires as a guide when reviewing a purchasing cooperative or lead districts procurement files.

Districts must use their judgment in determining the appropriate amount and complexity of due diligence required for each procuring entity with which they participate. For audit purposes, districts should retain signed and dated documentation of the due diligence performed and its results in a procurement file.

Sole-Source Procurements—R7-2-1053

Districts may award a contract for a material, service, or construction item without competition if the governing board determines, in writing, that only 1 vendor can provide the required material, service, or construction item. Before entering such a contract, the governing board must make a written determination that includes the following:

- A description of the procurement need and the reason why there is only a single source available or why no reasonable alternative exists.
- The name of the proposed supplier.
- The duration and estimated total dollar value of the proposed procurement.
- Documentation that the price submitted is fair and reasonable.
- A description of efforts made to seek other sources.

Districts should avoid sole source procurement except when no reasonable alternative source exists. To the extent practicable, districts must negotiate with the single supplier a contract advantageous to the school district. Districts should make sole source determinations at least annually to ensure no new alternative sources exist. A copy of the written determination and any cost or pricing data must be retained in the procurement file (see sample **Sole Source Written Determination**).

Districts should keep a record of all sole source procurements for a minimum of 5 years pursuant to R7-2-1086. The record should contain each contractor's name, the amount and type of each contract, and a list of the materials, services, or construction procured under each contract. The record should be available for public inspection.

Emergency Procurements—R7-2-1055 and 1056

Districts may purchase materials, services, or construction if an emergency condition creates a need that can't be met through normal procurement methods and seriously threatens the school

district's functioning, the preservation or protection of property, or the public health, welfare, or safety. Districts may only purchase the materials, services, or construction necessary to satisfy the emergency need through an emergency procurement. Some examples of emergency conditions are floods, epidemics, or other natural disasters, riots, fire, or equipment failures.

An individual designated by the governing board is authorized to make emergency procurements. Governing boards may prescribe limiting factors such as maximum spending limits for emergency procurements. In emergency conditions, the designated person must select a vendor with as much competition as practicable under the circumstances, obtain a price that is fair and reasonable, and must sign and date a written determination that includes the following:

- The basis for the emergency.
- The basis for the selection of the particular vendor.
- Why the price paid was fair and reasonable.

The designated person must convene a governing board meeting to approve the emergency procurement, unless the nature of the emergency requires that the procurement be made prior to governing board approval. If the nature of the emergency does not permit convening a meeting of the governing board to approve the emergency procurement, the authorized emergency procurement individual must provide the governing board a report concerning the emergency procurement at the first scheduled governing board meeting following the procurement that includes the written determination described above and the reason it was impracticable to convene a governing board meeting (see sample **Emergency Procurement Written Determination**).

Districts should keep a record of all emergency procurements for a minimum of 5 years pursuant to R7-2-1086. The record should contain each contractor's name, the amount and type of each contract, and a list of the materials, services or construction procured under each contract. The record should be available for public inspection.

Multiple Award Contracts—R7-2-1024, 1031, 1042, 1050, and 1068

A multiple award is defined as an award of multiple contracts for identical or similar materials or services to more than 1 bidder or offeror. In general, districts should not use multiple awards allowing more than 1 vendor to supply the same goods or services. However, there are instances in which districts may make multiple awards. For example, multiple awards may be made if 1 vendor is unable to provide the total quantity of goods or services requested by the district or if geographic distance precludes the use of 1 vendor throughout the district. The procurement solicitation must clearly state that multiple contracts may be awarded, the school district's basis for determining whether to award multiple contracts, and the criteria that will be used for selection. For example, describing whether the awards will be based on line items, groups, categories, incremental quantities, or geographic regions so bidders can take that into consideration when pricing their proposals or bids.

Before making a multiple award, the district must determine and document, in writing, the specific reason(s) that a multiple award is necessary and advantageous to the school district. Districts must establish procedures for the use of the multiple awarded contracts to ensure that purchases are

made from the contracts determined by the school district to offer the lowest cost in satisfying the school district's requirements. The district should limit the contract awards to the least number of suppliers necessary to meet the district's requirements. Multiple award documentation must be maintained in the procurement files.

Written determinations—R7-2-1004

The Rules require districts to prepare written determinations that must be retained in the procurement file. Districts must establish procedures for preparing written determinations. Written determinations must specify the reasons for the determination, including how the determination was made. Written determinations should also generally include supporting evidence, the selected vendor or contract, why pricing is fair and reasonable, why the procurement method used is reasonable, and why exceptions or deviations were justified.

In addition to the written determinations described in various sections above, the Rules require written determinations for several decisions and circumstances including:

- Contract modifications, including amendments or material changes to an awarded contract. (R7-2-1005)
- Only 1 responsive bid or proposal is received. (R7-2-1032)
- A bid is declared nonresponsive. (R7-2-1030)

Procurement disclosure statements—A.A.C. R7-2-1008(C)

Districts must obtain signed procurement disclosure statements for all procurement consultants, members of a procurement advisory group, or members of an evaluation committee involved in each specific procurement process and retain the written statements in the procurement file. The statement must include following required disclosures:

- That the person has no interest in the procurement other than that of a disclosed remote interest, as defined in A.R.S. §38-502.
- That the person will have no contact with any representative of a competing vendor related to the particular procurement except those contacts specifically authorized by the Rules.
- That the person has not accepted any personal gift or benefit from a person or vendor that has secured or has taken steps to secure a contract, purchase, payment, claim, or financial transaction with the school district or school purchasing cooperative.

Procurement Files—A.A.C. R7-2-1001(97)

Districts must maintain a procurement file that contains all documents necessary to provide a complete and transparent record for each procurement solicitation that, at a minimum, includes the following:

- List of notified vendors.
- Procurement-disclosure statements.

- Final solicitation.
- Solicitation amendments.
- Bids and offers.
- Offer revisions and best and final offers.
- Discussions.
- Clarifications.
- Final evaluation reports.
- Contract award.
- Written determinations, as applicable.
- Fair and reasonable pricing determinations, as applicable.
- Change-order justifications.
- Additional information, as necessary.

Purchasing from Employees and Governing Board Members

Districts are required to follow competitive bidding requirements in the Rules for all purchases of goods or services from district employees, regardless of the expenditure amount. A.R.S. §38-503(C) prohibits public employees from providing their employers with any equipment, material, supplies, or services unless provided under an award or contract let after public competitive bidding. This applies to any purchase using district monies, including extracurricular activities fees tax credit contributions and student activities monies. Although the Rules exempt expenditures of student activities monies from the Rules requirements, that exemption does not apply to purchases in which a district employee acts as a vendor. Following the guidelines for written quotes is not sufficient to comply with the requirements of A.R.S. §38-503(C).

Similarly, districts are required to follow competitive bidding requirements in the Rules for all purchases of services from district governing board members regardless of the expenditure amount. A.R.S. §38-503(C) prohibits governing board members from providing their district with any services unless provided under an award or contract let after public competitive bidding. However, for districts with 3,000 or more students, statutes limit purchases of supplies, materials, and equipment from board members to $300 per transaction and $1,000 total within any 12-month period and require that the governing board adopt a policy authorizing such purchases within the preceding 12 months. Districts with fewer than 3,000 students may purchase supplies, materials, and equipment from governing board members in any amount, provided each purchase is approved by the governing board and the amount of the purchase is included in the board's meeting minutes. Purchases of supplies, materials, and equipment from district board members are required to follow the Rules only if the purchase exceeds $100,000. Purchases of supplies, materials, and equipment from district board members below the $100,000 threshold must comply with the guidelines for written quotes.

Districts should establish a process to identify employee-owned and governing board member-owned vendors that are providing or interested in providing goods or services to the district to ensure proper procurement procedures are followed. Also, see the **Conflict of Interest section** on required disclosures, memorialization, and remediation of conflicts.

Arizona Attorney General Opinions I87-035 and I06-002, and A.R.S. §§15-213, 15-323, and 38-503

Contract Administration

Following the award of a contract, districts should ensure vendor compliance with all terms and conditions contained within the contract. Contract administration activities may vary depending on the complexity of the materials, services, or construction the vendor is providing. At a minimum, districts should establish procedures to monitor project completion progress; inspect materials, services, or construction provided; renegotiate and modify contract terms using an amendment process, if needed; and ensure contract pricing, terms, and conditions are met prior to making payments. Districts should also confirm that sufficient budget is available for each purchase and track total spending under the contract to ensure it remains within approved limits.

District should ensure that vendors comply with all contract terms and conditions throughout the entire contract period. To do this, the district should routinely monitor vendor performance against the contract requirements. For example, districts should compare invoice quantities and descriptions to the applicable contract to verify that all agreed-upon items or services are provided and that the district is not billed for items or services not included in the contract and document the results of the comparison.

Districts using purchasing cooperative contracts should ensure that vendor quotes or invoices are consistent with the terms and pricing of the original cooperative contract, the contract is not expired, and all purchases fall within the scope of the cooperative contract. The district is responsible for ensuring the quality and quantities of goods or services received and the rates paid align with the contract.

Conflict of Interest (COI)

A.R.S. §38-503 requires that governing board members, officers, and employees make known any substantial interest they or their relatives have in any contract, sale, purchase, service, or decision, and refrain from voting upon or otherwise participating in any manner as an officer or employee in any contract, sale, purchase, or decision for which they have a substantial interest. Districts should develop a COI policy to help ensure that district personnel and governing board members do not participate in the procurement process for any vendor in which they or their relatives have a substantial interest.

Districts should require governing board members, officers, or employees to complete or update COI disclosures annually. Districts should also establish a process to notify the procurement department of any existing vendor conflicts so the individual with the conflict is not placed in a position to participate in any transaction with a vendor for which they have a conflict and is restricted from accessing electronic or paper records for the vendor. Management should also notify governing board members when board meeting agendas include action or discussion items

for which the governing board members have vendor conflicts to allow the board member to appropriately recuse themselves from participating. Management should document their notification to governing board members of items that will require recusal. If the district fails to act, the employee or board member with the substantial interest is still responsible for refraining from participating in any manner regarding matters related to the vendor.

See the **Conflict of Interest section** for more information on the statutory requirements for COI; best practices for training, disclosure, memorialization, and remediation of disclosed COIs; and penalties for failure to comply with the statutory requirements.

Gift Prohibitions

A.R.S. §15-213 prohibits a person who supervises or participates in contracts, purchases, payments, claims, or other financial transactions or a person who supervises or participates in the planning, recommending, selecting, or contracting for materials, services, goods, construction, or construction services of a school district or school purchasing cooperative from accepting any personal gift or benefit from a vendor that has secured or has taken steps to secure a contract, purchase, payment, claim, or financial transaction with the school district. A gift or benefit is defined as a payment, distribution, expenditure, advance, deposit, or donation of monies, any intangible personal property, or any kind of tangible personal or real property. A gift or benefit does not include items that are of nominal value such as a greeting card, T-shirt, mug, or pen, food or beverage, or expenses or sponsorships relating to a special event or function to which individuals involved in procurement are invited.

In addition, A.R.S. §38-504(C) prohibits a public officer or employee from using their official position to secure anything of value or benefit for themselves that they would not ordinarily receive as part of their official duties if the thing or benefit is of such character as to manifest a substantial and improper influence on the officer or employee with respect to their official duties.

Districts should train employees, their supervisors, and others who participate in planning, recommending, selecting, or contracting for vendors about the gifting prohibitions and should require such employees to acknowledge that they have not violated the gifting prohibition as prescribed in A.R.S. §15-213(N). The employee's acknowledgment could be included as part of a procurement disclosure statement that is required by R7-2-1008.

Procurement Forecasting Template

Like-item category	Prior-year spent ($)	Prior-year procurement method	Projected next-year need ($)	Procurement method next year	Notes
Computers	$50,000	Written quotes	$142,000	IFB	No additional considerations needed other than cost.
Custodial Supplies	$14,500	Written quotes	$17,000	Written quotes	
Specialized educational software	$35,000	RFP	$40,000	None	Entered 5-year contract in prior year.

Additional analysis to populate table above:

Example 1 — Computer purchases	Example 2 — Custodial supplies	Example 3 — Specialized educational software
Current year: • Laptops purchased using a p-card = $72,000 • Additional orders via PO = $20,000	Current year total = $14,500	Current year = $35,000
Next year consideration: Computer replacement cycle expired for additional school; estimated additional 150 computers ($50,000) Total next year estimated = $142,000	Next year consideration: Price increases; Total next year estimated = $17,000	Next year consideration: Price increases Total next year estimated = $40,000 Only 1 authorized provider for renewals; part of a 5-year contract.

_____ SCHOOL DISTRICT NO._____

Sole Source Written Determination

(Required under A.A.C. R7-2-1053; prior governing board approval required)

Proposed vendor name:_____

Contract details:

Describe the duration and estimated total dollar value of the proposed procurement. The district should include details of the materials, services, or construction to be provided and the estimated total dollar value.

Facts supporting sole-source determination:

1. *Include a description of the procurement need and the reason why there is only a single source available or why no reasonable alternative exists.*
2. *Include documentation that the price submitted is fair and reasonable and how the district made that determination.*
3. *Describe the district's efforts made to seek other sources.*

Conclusion:

Procurement officer name: _____

Procurement office signature:_____ Date: _____

This determination must be presented to and approved by the district governing board in a public meeting prior to initiating a purchase with the vendor.

_____ SCHOOL DISTRICT NO._____

Emergency Procurement Written Determination

(Required under R7-2-1055 & 1056; must be signed by authorized individual)

Vendor name: _____

Emergency basis:

Describe the emergency conditions (i.e. floods, epidemics, or other natural disasters, riots, fires, or equipment failures), the serious threat posed to the district (serious threat to property or public health, welfare, or safety, or serious threat of disruption to critical operations), and the need those conditions created.

Contract details:

Describe the duration and estimated total dollar value of the proposed procurement. The district should include details of the materials, services, or construction to be provided and the estimated total dollar value.

Basis for vendor selection:

Describe why the district selected this vendor.

Fair and reasonable price

Include documentation that the price submitted is fair and reasonable and how the district made that determination.

Designated emergency procurement official name: _____

Designated emergency procurement official signature:_____

Date: _____

This determination must be presented to and approved by the district governing board in a public meeting prior to initiating a purchase with the vendor. If the nature of the emergency does not permit convening a meeting of the governing board to approve the emergency procurement, include a section to describe why it was impracticable to convene a meeting of the governing board.

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	1
PROCEDURES	2
Personnel Department	4
Personnel Files	4
Payroll Department	6
Conflict of Interest	9
Payroll-Related Expenditures and Reporting	9
Fiscal Year-End	10
Bank Accounts	10

INTRODUCTION

Salaries, wages, and related payroll expenditures constitute a major portion of school district expenditures. Therefore, payroll preparation and processing are extremely important functions that require strict internal controls and close supervision. Payroll expenditures and payments are supported by personnel data elements (e.g., employee position, compensation, and benefits data; approved voluntary withholdings; and other required withholdings) and payroll data elements (e.g., time sheets for hourly employees, approved leave requests, and records of employee absences).

Internal control over payroll should be adequate to:

- Ensure personnel and payroll data is accurate and adequately supported.
- Minimize errors and prevent fraud.
- Ensure payroll and employer payroll-related expenditures are paid timely and accurately.
- Ensure payroll and payroll-related expenditures are recorded in the correct fiscal year.
- Provide accurate financial information for district stakeholders.

Districts should tailor internal controls to their specific needs. The recommended controls described in this section are provided as examples of sound financial and administrative practices that districts can use in either automated or manual systems to ensure that evidence of review, verification, and approval is documented and retained. Districts may use other controls if they provide at least the same level of internal control. In addition to this section, districts should follow the requirements for conflict of interest disclosure and remediation in the **Conflict of Interest section**, expenditure vouchers in the **Expenditures section** for preparing payroll vouchers, the requirements in the **Information Technology section** for general and application controls for automated personnel and payroll systems, and the retention schedules provided in the **Records Management section** for personnel and payroll records.

POLICIES

District governing boards should establish written payroll policies and distribute them to all employees. The District's payroll policies should, at a minimum, address the following to comply with statutory requirements and establish effective internal controls over payroll:

1. The governing board should approve the district's salary and pay rate schedules and all employee contracts, pay agreements, and any other agreed-upon terms of employment, including compensation for additional duties. If authorized by a governing board resolution, the governing board may designate an individual to approve pay or position changes consistent with the board-approved salary and pay rate schedules and other relevant governing board policies, between board meetings pending approval at the next governing board meeting.
2. The governing board should establish employee benefit guidelines, including types of benefits offered and eligibility requirements.

3. Policies governing leave should include prescribed accrual rates for specified years of service, maximum amounts allowed to be accrued, and disposition of accrued time if an employee exceeds the maximum accrual limit or upon termination of employment. Districts should also prescribe policies pertaining to the voluntary transfer of leave between employees or to a sick leave bank, if applicable.
4. Districts should establish a delayed payroll system. This type of system allows time for districts to make payroll adjustments before payment to help ensure that employees receive the appropriate amount of compensation, including paying hourly employees only for the hours they actually worked. Districts should determine how long to delay payment to allow adequate time for adjustments but may not delay payments more than 7 business days during their normal 2-week payroll processing cycle. A.R.S. §23-351. If an employee is discharged from district service, the district must pay the wages due to the employee within 10 calendar days from the date of discharge. A.R.S. §15-502(F).
5. Districts should establish policies for prorating employee compensation when requested by the employee, as allowed by A.R.S. §23-351, and ensure policies are in line with Internal Revenue Service (IRS) guidelines, including requiring employees to document their election to receive prorated payments before beginning work and restricting changes to that election after work has begun. The district's policies should specify how it will apply adjustments to prorated payments when required (i.e., one-time adjustment or allocate the adjustment to the remaining payments for the year). The policies for applying adjustments should address both continuing employees and employees who terminate during the year. Districts should also ensure that the proration policies ensure each employee will be paid the exact amount they actually earned by the end of the proration period and that prepayment to an hourly employee does not occur at any time.
6. Districts must fingerprint employees as described in A.R.S. §15-512.
7. The governing board must adopt procedures for conducting background investigations on prospective employees, including standard forms to document background investigations. Background investigations must include a good faith effort to communicate with the applicant's former employers to obtain information and recommendations that may be relevant to the applicant's fitness for employment. A.R.S. §15-512(F).
8. Districts must ensure that all employees and governing board members comply with the State's conflict-of-interest laws. A.R.S. §§38-501 through 511.

PROCEDURES

Districts should establish written procedures to enforce and uphold the governing board's adopted personnel and payroll policies. The District's procedures should, at a minimum, address the following to comply with statutory requirements, IRS guidelines, and establish effective internal controls over personnel and payroll departments:

1. Districts should separate personnel and payroll processing responsibilities to ensure that no single person has unrestricted access or control over personnel data or payroll processing functions, to reduce the risk of fraud and errors in payroll expenditures. Each department's procedures should be evaluated for overlapping responsibilities that 1 person performs that could provide the opportunity for fraud or errors to occur. As an additional control, districts could consider training multiple employees to perform each procedure and periodically rotate those responsibilities. This helps ensure that no single employee has exclusive knowledge of a procedure. If adequate separation of personnel and payroll responsibilities within the personnel or payroll processes is not possible due to the district's limited staff size, each area should be evaluated and review procedures should be established and documented to reduce the risk of fraud and errors.
2. Districts participating in the Arizona State Retirement System (ASRS) must ensure that all employees who meet membership criteria in accordance with A.R.S. §§38-711 and 38-727 are enrolled in ASRS. Districts must withhold employee contributions and remit employee and district contributions in accordance with the ASRS Employer Manual and A.R.S. §§38-735, 38-736, and 38-737. Participating districts must also calculate and pay the alternative contribution rate to ASRS for positions filled by ASRS retirees who return to work after retirement in accordance with the ASRS Employer Manual and A.R.S. §38-766.02.
3. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 must establish effective internal controls over processing, storing, and issuing warrants.
4. Districts must record payroll expenditures in the correct fiscal year.
5. Districts should establish and maintain a system to account for the accrual and use of vacation, personal, sick, compensatory, and any other authorized leave for all employees. District procedures should establish regular intervals for comparing accrued employee leave and accrual rates to approved policies to ensure that employees are accruing leave time at the proper rate and do not exceed allowed maximums in accordance with district policy.
6. Districts should establish procedures to determine whether an individual providing services to the district is considered an employee or an independent contractor pursuant to IRS guidelines. Districts should pay individuals who are employees under IRS guidelines through the district's payroll system to ensure payments are subject to applicable payroll withholding. Districts should pay individuals who are independent contractors through the district's expenditure system. Districts should refer to IRS Publication 15-A, *Employer's Supplemental Tax Guide*, for guidance in determining whether the district should consider an individual an employee or independent contractor.
7. Districts must include fringe benefits, including personal use of district vehicles, in gross income and subject them to income and employment taxes. Districts should budget for fringe benefits under the appropriate employee benefits expenditure object code in the **Chart of Accounts section**. Districts should refer to IRS Publication 15-B, *Employer's Tax Guide to Fringe Benefits*, for further guidance.

8. Districts must establish a method to obtain and track employees' fingerprint clearance cards and other credentials and monitor expiration dates.
9. Districts must establish procedures to ensure that all employees and governing board members comply with the State's conflict-of-interest laws. A.R.S. §§38-501 through 511. Districts should use disclosed conflicts to ensure that personnel changes and payroll transactions are approved by employees and governing board members without related conflicts. Districts should evaluate conflicts of interest and document remediating actions if a conflict exists.

Personnel Department

Written personnel department procedures should describe responsibilities for gathering, entering, or changing personnel data used to support payroll amounts, including employee positions, compensation, withholdings, benefit eligibility and elections, and leave accrual rates, and should establish documentation and approval required for changing personnel data.

After payroll has been distributed, the personnel department should safeguard any unclaimed warrants. The personnel department should investigate and follow up on any payments that couldn't be processed. For direct deposits, this may involve reaching out to employees to confirm their account information or investigating what caused the deposit to fail.

Personnel Files

The personnel department should maintain centralized employee personnel files for each employee to provide adequate support for related payroll expenditures and serve as a basis for preparing payroll vouchers and reports. Personnel department records are generally of a long-term nature and do not change with each pay period. Only authorized personnel department employees should be allowed access to employee personnel files, including electronic employee files, to add or delete employees or change pay rates. After pay or position change documents have been approved by the governing board or governing board's designee, the personnel department should enter the applicable information into the employee's file. A second employee should review the entries to ensure accurate information was entered into the computer system. The personnel department should provide documentation of pay, position, and withholding and voluntary deduction change authorization forms to the payroll department each pay period to support the payroll review process. Individual employee personnel and payroll files should include at least the following documents:

1. **Employment Contract or Personnel/Payroll Action Form**—An employment contract documents agreed-upon terms of employment, such as position; salary; benefits; expected days/hours to be worked, including paid holidays; and duration of employment. For employees not on contract, districts should prepare and retain a personnel/payroll action form to document employment terms. The form serves the same purpose as a contract but does not bind employees to a specific length of service.

   In accordance with A.R.S. §23-351(C)(2) and Arizona Attorney General Opinion I04-007, employees may elect to have their compensation paid over the actual months worked or

prorated in any number of payments. The employee must make the election before performing any work, usually at the beginning of the school year or contract period, and cannot change the election after work has begun. The contract or personnel/payroll action form should document any prorated compensation election and specify whether any compensation due at the end of the school year or fiscal year is paid in a lump sum or paid within 2 months after the end of the fiscal year, at the employee's option.

Districts should document all pay or position changes prior to the work being performed. For contract employees, either the original contract, a contract amendment, or a contract addendum must include agreements for extra pay that will be received for performing additional duties (e.g., chairing a department or coaching). For employees not on contract, districts should document any changes to employment terms through a personnel/payroll action form. Proposed pay or position changes including new agreements for additional duties should be approved by the governing board or governing board's designee before initiation of the new pay or position. Districts should also document terminations, including reason(s) for termination.

2. **Certification Records**—Districts should retain certification records for teachers, principals, and other certified administrators and staff. Districts must submit teacher and administrator certificates to the county school superintendent when an employee is hired. Districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 do not need to submit certificates to the county school superintendent. A.R.S. §§15-302(A)(9), 15-502(B), and 15-914.01(I).

3. **Employment Eligibility Verification (Form I-9)**—Districts must ensure that an Employment Eligibility Verification, Form I-9, provided by the U.S. Department of Homeland Security, U.S. Citizenship and Immigration Services, is completed for any person hired after November 6, 1986. Districts must retain the completed form and any supporting eligibility documentation. If employment eligibility documents carry an expiration date, districts are responsible for reverifying employment eligibility.

   In addition, A.R.S. §23-214 requires that for any person hired after December 31, 2007, districts must verify employment eligibility through the E-Verify program operated by the U.S. Department of Homeland Security. Districts must either record the E-Verify case verification number on the Form I-9 or print the case details and keep it with the Form I-9.

4. **Federal and State Withholding Allowance Certificates (W-4 and A-4 forms)**—Districts should obtain completed W-4 and A-4 forms from employees before the first payroll payment is made. If employees have not submitted a completed W-4 form before the end of the first payroll period, districts should withhold federal income tax at the single rate with no withholding allowances. If employees have not submitted a completed A-4 form, districts should withhold State income tax at the Arizona Department of Revenue's (ADOR) prescribed rate. The W-4 and A-4 forms remain in effect until employees submit new forms.

5. **Voluntary Deduction Authorizations**—Districts should retain a voluntary deduction authorization form to support each voluntary deduction, and it will remain in effect until the employee submits a new form or a written request canceling the deduction. Districts may

withhold voluntary deductions at the employees' request for items such as additional insurance or charitable contributions. Governing boards may also allow employees to participate in federal retirement or deferred compensation plans as provided in 26 United States Code §§401(a), 403(b), and 457(b). Districts must withhold the requested amount and transfer such contributions to the fund manager within 10 working days after each payroll date. Contributions transferred after that date must include a penalty of 6 percent a year for each day the contributions are late, which the district will pay. A.R.S. §15-121.

6. **Loyalty Oath**—Each employee must take and subscribe to the oath prescribed for public officers pursuant to A.R.S. §38-231, and districts must retain a copy of the acknowledged oath.
7. **Fingerprint Clearance Card/Certification Form**—Districts should retain copies of fingerprint clearance cards or fingerprint certification forms.

   Certificated personnel, as described in A.R.S. §15-203, must maintain a valid fingerprint clearance card during the valid period of their certificate. A.R.S. §15-534

   The district must develop procedures for fingerprinting employees. Districts must fingerprint noncertificated personnel and personnel who are not paid employees and who are not either the parent or the guardian of a pupil who attends school in the school district but who are required or allowed to provide services directly to pupils without being supervised by a certificated employee, as described in A.R.S. §15-512(A). The employee's fingerprints and a form, provided by the district, indicating whether they are awaiting trial on, have ever been convicted of, or have ever admitted to committing any of the criminal offenses listed in A.R.S. §15-512(D) shall be notarized and submitted to the school district within 20 days after the date an employee begins work.
8. **Background Investigation Forms**—Districts should retain the completed forms the governing board develops in accordance with A.R.S. §15-512(F).
9. **Direct Deposit Authorizations**—Districts should retain direct deposit authorization forms, updated for any changes, and any supporting documents to document authorization for the payroll department to process direct deposits to employees' bank accounts.

Payroll Department

Payroll department procedures should describe responsibilities for gathering, entering, or adjusting payroll data used to support payroll amounts, including time sheets for hourly employees, approved leave requests, and records of employee absences, and should establish processes for calculating and paying employee salaries and wages accurately and timely.

To provide support and information for preparing and processing payroll, the following procedures should be followed:

1. For each employee electing prorated payments, before prorated payments can begin, the payroll department must calculate the amount to be paid to applicable employees each pay

period based on the compensation and election information the personnel department provides. Prorated payment amounts should be calculated for contract and hourly employees as follows:

a. **Contract employees**—Determine the annual compensation amount that will be prorated and divide it by number of pay periods the employee elected, as documented in the employee's contract.

b. **Hourly employees**—Determine the estimated annual amount to be paid using the expected hours to be worked each pay period, hourly rate of pay, and divide it by the number of pay periods the employee elected, as documented in the employee's personnel/payroll action form. Districts must ensure that hourly employees receiving prorated compensation are not prepaid at any point during the year. Therefore, when setting prorated payment amounts, the district should also identify any days the hourly employee is not expected to work or take available leave. For example, days during district scheduled breaks (e.g., fall, winter, spring, and summer breaks), that the employee will not be compensated for as a paid holiday should be taken into consideration.

Districts should retain the calculation of prorated amounts for all employees electing proration.

2. Districts must have each employee subject to the *Fair Labor Standards Act* prepare attendance records, such as time sheets, time cards, or an electronic time-keeping system that ensures the documented time worked is approved by the employee and the employee's supervisor and retained to support the payroll. Attendance records should document regular and approved overtime hours worked, vacation, personal, and sick leave taken, leave without pay, and compensatory time taken or earned during the pay period. For employees not subject to the *Fair Labor Standards Act*, documentation may be completed on an exception basis to support approved overtime hours worked, absences without leave available, and approved leave taken (e.g., vacation, personal, sick, compensatory, etc.).

3. The payroll department should use the attendance and other documentation described above to calculate employee payroll amounts included in the payroll register, adjust leave balances, and adjust employees' remaining prorated compensation payments, as applicable.

   Districts should adjust prorated compensation for contract and hourly employees as follows:

   a. **Contract employees**—If contract employees miss work without available leave, the payroll department should adjust the remaining prorated payments no later than the end of their contract term to ensure they are only paid in accordance with their approved work contract.

   b. **Hourly employees**—The payroll department should always ensure that total compensation paid does not exceed the cumulative amount earned for hours actually worked throughout the year. At the end of each pay period, the payroll department should compare an employee's expected hours (i.e., the number of hours used to calculate the annual compensation amount that is being prorated) to the employee-prepared attendance records of actual hours worked for any differences between expected and actual hours. If an employee has worked fewer hours than expected, the payroll department should adjust the employee's leave balances for the difference. However, if sufficient leave time is not

available, the payroll department should reduce the employee's compensation to reflect the hours not worked. If an employee has worked more hours than expected, the payroll department should increase the employee's compensation to include the additional hours. Districts should use the employee's official rate of pay to make compensation adjustments and ensure all adjustments are in accordance with the District's policies and procedures.

If additional hours worked entitles an employee to overtime compensation under the *Fair Labor Standards Act* (Act), districts must calculate the adjustment amount to comply with the Act's overtime requirements. Districts must pay employees entitled to overtime compensation for overtime hours worked no later than 16 days after the end of the most recent pay period in accordance with A.R.S. §23-351.

Procedures 4, 5, and 6 below should be modified for districts approved to assume accounting responsibility as authorized by A.R.S. §15-914.01 since they do not process payroll transactions through the county school superintendent (CSS).

4. Districts should prepare a payroll register and submit it to the CSS. A prepayroll register may be prepared if the CSS office processes the District's payroll. The payroll register should include the period covered, names, identification numbers, account codes charged for payroll, regular and overtime wage or salary rates, regular and overtime hours worked, fringe benefit amounts, gross pay, federal and State withholding taxes, social security taxes, Medicare taxes, retirement, long-term disability, authorized voluntary deductions listed individually by recipient, and net pay. The payroll register should also show totals for gross pay, net pay, and mandatory and voluntary deductions for all employees for the pay period and for the year-to-date.

   As part of preparing the payroll or prepayroll register, a payroll department employee should compare changes in personnel data such as new employees, terminations, contract addendums or personnel/payroll action forms, fringe benefits, withholding allowance certificates, voluntary deduction authorization forms, and benefit elections for accuracy and compliance with district policies to ensure documentation supporting the change was approved by a supervisor and district management, and document any discrepancies and their resolution. A supervisor should review the payroll or prepayroll register for reasonableness, ensure all discrepancies are appropriately resolved, and document their review and approval before the District sends the register to the CSS.

5. Districts should submit to the CSS a payroll voucher approved by the district governing board and supported by the payroll register, or prepayroll register if the CSS prepares the payroll register, to authorize drawing payroll warrants. Districts should prepare payroll vouchers in a manner similar to expenditure vouchers (see the **Expenditures section**). The voucher should indicate the account codes charged for payroll. Total payroll charges should include the district's portion of social security taxes, Medicare taxes, and retirement and long-term disability contributions.

6. Districts should verify that payroll warrants, warrant registers, direct deposit amounts, and payroll registers received from the CSS reconcile with the payroll register and voucher.

7. Districts should at a minimum separate the payroll responsibilities described above, as follows:
   a. Entering or adjusting employee hours worked, including overtime, paid leave used, absences without paid leave, and leave hours earned in the payroll system.
   b. Payroll register and voucher preparation.
   c. Payroll register and voucher review and approval.
   d. Disbursing payments by warrant, direct deposit, or other method.
   e. Reconciling payroll information received from the county school superintendent.

   Employees participating in the various stages should document by manual or electronic signature or initials and date the steps they performed.

Conflict of Interest

Districts should develop a conflict-of-interest policy to help ensure that personnel changes and payroll transactions are approved by district personnel and governing board members that do not have, and whose relatives do not have, a substantial interest in the transactions. A.R.S. §38-503 requires that governing board members, officers, and employees make known any substantial interest they or their relatives have in any contract, sale, purchase, service, or decision, and refrain from voting upon or otherwise participating in any manner as an officer or employee in such contract, sale, purchase, service, or decision. Further, A.R.S. §38-503(D) prohibits districts from employing their governing board members or their governing board members' spouses, except for the employment of a substitute teacher in a small school district as allowed in A.R.S. §15-421(E). Districts should require governing board members, officers, or employees to complete or update conflict-of-interest statements annually and use any applicable disclosed conflicts to ensure personnel changes and payroll transaction approvals are done by employees and board members without related conflicts.

Payroll-Related Expenditures and Reporting

Districts should develop policies and procedures for the payment of employer payroll-related expenditures, such as retirement contributions, social security taxes, Medicare taxes, and unemployment taxes. Districts should prepare and reconcile required reports for each payroll-related expenditure type. Districts should retain supporting schedules or other documents used to develop report information. Supervisors should periodically review reports to ensure that payments are correct and timely. Districts should also develop policies and procedures for the payment of voluntary deductions, such as health and life insurance, withheld from employees and ensure that reports related to such payments are reviewed and retained.

The IRS, ADOR, ASRS, and Arizona Department of Economic Security issue guidance pertaining to payroll-related deposit, filing, and reporting requirements for employers. Districts should refer to the most recent guidance for specific instructions.

Fiscal Year-End

Districts should establish policies and procedures to ensure that payroll and payroll-related expenditures are recorded in the correct fiscal year. If payments are made after June 30 that are related to services provided on or before June 30, districts should process payments on an encumbrance voucher for the correct fiscal year.

Bank Accounts

Governing boards may only establish the bank accounts described in the **Bank Accounts section**. The bank accounts used during the payroll process are described below.

State Income Tax Withholdings Bank Account

The governing board may establish a bank account in which to deposit and accumulate the monies it withholds from employees for State income tax until the monies must be deposited with ADOR. The bank account may be interest bearing, and at the end of each fiscal year, all interest earned must be remitted to the county treasurer for credit to the district's Maintenance and Operation (M&O) Fund. Districts must make disbursements from the account, except the interest remittance, only to ADOR. A.R.S. §15-1222

Federal Payroll Tax Withholdings Bank Account

The governing board may establish a bank account in which to deposit and accumulate the monies it withholds from employees for federal income tax and both the district and employee share of social security and Medicare taxes until the monies are electronically transferred to the United States Treasury. The bank account may be interest bearing, and at the end of each fiscal year, all interest earned should be remitted to the county treasurer for credit to the district's M&O Fund. Districts should make disbursements from the account, except for the interest remittance, only for the purpose of remitting tax payments to the United States Treasury.

Employee Insurance Programs Withholdings Bank Account(s)

The governing board may establish bank accounts in which to deposit and accumulate the monies it withholds for employee insurance programs, the monies contributed by the district for employee insurance programs, the monies received from board members for insurance programs, and the monies received for the extension of group health plan coverage under *The Consolidated Omnibus Budget Reconciliation Act* (COBRA) until premiums are paid. A.R.S. §15-1223. The bank accounts may be interest bearing, and at the end of each fiscal year, all interest earned must be remitted to the county treasurer for credit to the district's M&O Fund. Districts must make disbursements from the accounts, except for the interest remittance to the county treasurer, only to the insurance carriers or to individuals for refunds of insurance premiums.

Payroll Direct Deposits Clearing Bank Account

The governing board may establish a bank account in which to deposit the monies to make payroll direct deposit payments to financial institutions designated by employees. The district shall fund the account with a warrant for an amount equal to the payroll direct deposit payment. The bank account must be a clearing account that maintains a zero balance and that does not accumulate monies except for interest earned on the account. At the end of each fiscal year, districts must remit all interest earned on the account to the county treasurer for credit to the district's M&O Fund. A.R.S. §15-1221.

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	1
PROCEDURES	2
Inventory Systems	2
Methods of Accounting for Inventory	3
Inventory Control	4
Issuing and Receiving Stored Supplies	4
Physical Inventory	5
Inventory Pricing	8

Sample Forms

PERPETUAL INVENTORY RECORD	10
SUPPLIES REQUISITION/ISSUE FORM	11
INVENTORY SHEET	12

INTRODUCTION

Supplies include expendable goods and materials districts consume during normal operations. Districts must maintain supplies inventory for significant amounts of supplies stored for future use. Districts may have several different types of supplies inventory, but they commonly maintain educational supplies, office supplies, custodial and cleaning supplies, food and food serving supplies, repair and maintenance supplies, vehicle parts and supplies, and fuel.

Stored supplies inventory may be maintained in one or more district locations depending on the district's size and the quantity of supplies regularly needed for operations. Supplies inventory records can be updated through periodic inventory counts, a perpetual inventory system, or a combination of both. Inventories may be maintained in a single centralized system using a central warehouse or a decentralized system using multiple storage areas. The policies and procedures discussed in this section describe processes for a centralized inventory system, but they can be applied with minor modifications to fit a decentralized system.

Internal control over district supplies inventory should be adequate to:

- Safeguard supplies against unauthorized use, theft, and damage.
- Promote appropriate and efficient use of district supplies.
- Monitor supplies to prevent overstocking, understocking, spoilage, or obsolescence.
- Provide documentation for insurance purposes in the event of fire or other casualty loss.
- Provide accurate financial reporting.

Districts should tailor internal control policies and procedures to their specific needs. The recommended controls described in this section provide an effective system of controlling, tracking, and reporting supplies inventory that districts can use with manual or electronic systems. Districts may use other controls if they provide at least the same level of internal control. In addition to this section, districts should follow the requirements for expenditure processing in the **Expenditures section**; the requirements for general and application controls for automated systems in the **Information Technology section**; and the retention schedules for supplies inventory records provided in the **Records Management section**.

POLICIES

Governing board policies over supplies inventory may vary depending on the amount and nature of supplies inventory a district receives and holds. Districts should consider addressing the following in their written supplies inventory policies:

1. Appropriate supply use, including disciplinary actions for theft or misuse of district supplies.
2. Any requirements to obtain or attempt to obtain supplies from a central warehouse or other supplies inventory location prior to purchasing supplies from outside sources.

3. Supervisory approval required to purchase supplies.

PROCEDURES

Districts should establish written procedures for supplies inventory. The District's procedures should, at a minimum, address the following to establish effective internal controls over supplies inventory:

1. Districts should maintain proper separation of responsibilities between recordkeeping and custodial functions. (Small districts unable to adequately separate responsibilities due to insufficient staff size should implement additional supervisory review at appropriate points in the process to help ensure effective internal control.)
2. Districts should physically safeguard supplies inventory. Districts should store supplies at a location(s) where loss from theft, fire, temperature changes, humidity, or other elements is minimized.
3. Districts should adequately monitor supply levels to prevent overstocking, understocking, spoilage, or obsolescence.
4. Districts should review supplies orders and requisitions periodically to help ensure that items and quantities ordered or requisitioned are reasonable and that the order or request was properly approved.
5. Districts should establish dollar amount thresholds to identify when supplies stored for future use are significant enough to implement inventory controls and when supplies inventory should be reported in the financial statements.
6. Districts should determine if they will monitor supplies inventory using a periodic inventory system, a perpetual inventory system, or a combination of both.
7. Districts that maintain perpetual inventory records should take a complete physical supplies inventory at least every 3 years and periodically test-count selected supplies to confirm inventory amounts.
8. Districts that maintain periodic inventory records should take a complete physical supplies inventory at least annually.
9. Districts should maintain cost documentation to support inventory valuations, including documentation of inventory costing methods used and flow assumptions (e.g., average cost, first-in, first-out, etc.).

Inventory Systems

Districts may maintain supplies inventory accounting records under a perpetual or a periodic inventory system or a combination of both.

Under a perpetual inventory system, districts record purchases and disbursements of supplies to departments directly in the inventory accounting records as the transactions occur. The quantity and cost balances in the inventory accounting records at fiscal year-end should agree with the

actual quantity and cost of inventory remaining on hand. An advantage of this method is the ability to determine the quantity and cost of inventory on hand at any time within the accounting period. With a perpetual system, it may not be necessary to take a physical inventory at the end of each fiscal year. If inventory test-counts indicate that the perpetual system is accurate, districts may take a physical inventory once every 3 years. However, districts should still prepare an inventory list from the perpetual inventory accounting records at each fiscal year-end to support financial reporting. See **example perpetual inventory record**.

Districts should arrange perpetual inventory accounting records by description or by stock number. District office personnel should maintain perpetual records. However, if warehouse personnel maintain the records, districts should assign an employee, independent of the supplies purchasing, custodial, and recordkeeping responsibilities for supplies, to make periodic checks to verify that amounts on hand agree with the records. The extent of inventory testing needed depends on the nature of the inventory, its value, the turnover rate, and the effectiveness of other inventory control procedures. Districts should document their plan for inventory test counts and describe the factors considered in determining their plan.

Under a periodic inventory system, districts do not record inventory transactions directly in the inventory accounting records. The cost and quantity of beginning inventory for each item remains unchanged in the inventory records during the accounting period. At the end of the accounting period, districts determine the ending inventory quantities for each item by taking a physical inventory and adjusting the inventory accounting records to reflect the ending physical inventory quantities. Districts then determine the cost of such inventory by referring to the inventory items' purchase documentation and the district's established inventory costing method and flow assumptions.

To facilitate the process of valuing inventory items at year-end under a periodic inventory system, districts should maintain a purchase record for each inventory item during the accounting period. The purchase record should include the description, date of receipt, quantity received, purchase order number, and unit cost.

A perpetual inventory system is generally appropriate when the inventory consists of high-dollar-value items maintained in low quantities. Conversely, a periodic inventory system is generally used when the inventory consists of low-dollar-value items held in high quantities.

Methods of Accounting for Inventory

Districts may record supplies inventory using either the consumption method or purchases method of accounting. However, because of budgeting requirements, the purchases method should be used for the Maintenance and Operation and Unrestricted Capital Outlay Funds.

Under the consumption method, districts consider inventory items as expenditures (expenses) when they issue items from the central warehouse or other supplies inventory locations and the user consumes them. Districts debit all acquisitions to the inventory asset account at the time of purchase. Then, districts adjust the inventory asset account at year-end to reflect the valuation according to the year-end physical inventory or perpetual inventory records and record the inventory items used as expenditures (expenses).

Under the purchases method, the acquisition costs of inventory items are considered expenditures (expenses) when the inventory is purchased from the vendor. Acquisitions are debited to supplies expenditure (expense) accounts at the time of purchase. At year-end, the inventory asset account is adjusted according to the year-end physical inventory or perpetual inventory records.

For financial reporting purposes, supplies inventory in the proprietary funds must be reported using the consumption method. See the **Fund Accounting section**, for definitions of proprietary funds as well as the other fund categories.

Inventory Control

Establishing optimal minimum and maximum stock levels for items in the supplies inventory is an important part of inventory control. The range between the minimum and maximum stock levels represents the optimal range of stock to be carried for an inventory item. Optimal levels help minimize the risks of having inadequate inventories to meet district requirements or of holding excessive inventories. Inventory-carrying costs and the risk of inventory obsolescence are increased when excessive inventories are maintained.

To determine the minimum stock level, districts should take into consideration an item's volume of usage and the time required to order and receive the item. When inventory is depleted to the minimum stock level, districts should purchase additional inventory items. To determine the maximum stock inventory level, districts should consider the cost of carrying inventory, the risk of obsolescence, and the benefit of obtaining quantity discounts.

Adequately safeguarding supplies is another important part of inventory control. Districts can achieve adequate safeguards by providing controlled storage facilities to protect against unauthorized withdrawals, clearly assigning and communicating custodial responsibilities, controlling forms and documents authorizing inventory issuance, and implementing environmental safeguards such as smoke detectors, fire alarms, fire extinguishers, and sprinkler systems.

Issuing and Receiving Stored Supplies

Districts should follow these procedures when receiving a requisition for supplies that are available in the warehouse or other supplies inventory locations. Districts should follow the procedures presented in the **Expenditures section**, for purchasing supplies that are not on hand.

Performed By	Procedure
Supplies Clerk	1. Receives supplies requisition from requestor after supervisor approval and prepares supplies issue documentation. (See example **supplies requisition/issue form**.) 2. Issues supplies, and requestor signs and dates issue documentation to indicate supplies received.

Performed By	Procedure
	3. Clerk provides a copy of signed issue documentation to the requestor, sends a copy to the district office, and retains the original on file.
District Office Clerk	4. Updates perpetual accounting records from the signed issue documentation, for perpetual inventory systems only.

Physical Inventory

Districts should take a physical inventory of supplies every year unless perpetual records are maintained. If perpetual inventory records are maintained and periodic test counts indicate the records are accurate, districts should take a physical inventory at least once every 3 years. All inventories should be taken at or as close to year-end as possible. If districts do not maintain perpetual inventory records and are only able to take the annual physical inventory at a time other than at year-end, they should maintain a log of supplies received and issued between the date of the physical inventory and year-end. The information recorded in the log is necessary to calculate the amount on hand at year-end.

Preparing for the Inventory—Districts should follow the procedures listed below to prepare for a physical inventory:

1. Develop written instructions that clearly indicate the procedures for taking the physical inventory. Districts should distribute to and review these instructions with all participating employees to help ensure understanding and compliance. Districts should retain these instructions with the physical inventory documents to support the inventory process.
2. Assign a specific employee, independent of supplies purchasing, custodial, and recordkeeping responsibilities, to manage and supervise the physical inventory.
3. Close the warehouse (or other supplies inventory locations), if possible, or reduce supply transaction activity as much as possible during the physical inventory. The district may request vendors to stop all shipments and may decide not to process any warehouse requisitions except for emergency orders during the inventory period.
4. Separate damaged or obsolete items. An employee should prepare a list of the damaged or obsolete items and present it to the governing board or an individual authorized by the board for approval prior to disposal. Districts should dispose of obsolete items in accordance with Arizona Administrative Code R7-2-1131.
5. Perform housekeeping procedures before taking the physical inventory. Such procedures include neatly arranging like inventory items in stacks, bins, and shelves; and clearing aisles, and receiving and distribution areas.

Counting the Inventory—Districts should perform the inventory in a systematic manner and over the shortest reasonable time period to help ensure that items aren’t omitted or inventoried more

than once due to movement from one location to another. Districts may use manual or electronic inventory systems to provide an accurate and efficient inventory count. Some common methods of taking inventory and related controls are:

1. Use inventory tags. Tags should be prenumbered and consist of 2 parts. An employee not involved in counting the inventory should be responsible for custody of the tags and maintain a control log to account for tags issued. Districts should issue tags to inventory count teams in numerical sequence.

   One member of the inventory count team should count the inventory on hand for each item and call the location, item stock number, description, quantity, and unit of measure (i.e., dozen, case, etc.) for that item. The second team member should record this information on an inventory tag. The stub end of the tag should be attached to the stack or batch of items counted to indicate that the inventory item was counted. The second part of the tag is used as a source document in preparing the inventory list. Unused tags should be returned to the employee maintaining the log to account for all tags. The supervisor should use the control log to document that all tags were returned and that a complete supplies inventory has been performed.

2. Use prenumbered inventory sheets (see sample **inventory sheet**). Inventory sheets should be prenumbered, and an employee not involved in the inventory count should maintain a control log. Two-member count teams should complete inventory sheets in the same manner described above for inventory tags. The personnel counting and recording the inventory should initial and date the inventory sheets to document their responsibilities. Since inventory sheets do not provide a means of identifying which items have been counted, the district may use other means, such as marking boxes counted, to ensure that all items have been counted. Unused inventory sheets should be returned to the employee maintaining the control log. The supervisor should use the control log to document that all inventory sheets were returned and that a complete supplies inventory has been performed.

3. Use bar code scanners and an electronic inventory system. An employee not involved with counting the inventory should issue bar code scanners to the count team and maintain a control log. Since this method does not provide a means of identifying which items have been counted, the district may use other means, such as marking boxes counted, to ensure that all items have been counted. Bar code scanners should be returned to the employee maintaining the control log. The supervisor should use the control log to document that all bar code scanners were returned and that a complete supplies inventory has been performed.

After the completion of the initial inventory counts, an employee not involved in the first count should verify a sample of the supplies inventoried to ensure the accuracy of the physical inventory counts.

Reconciling the inventory—For periodic inventory systems, an employee independent of the inventory and any custodial function should reconcile the quantities from the physical inventory to the previous period's inventory, supply purchases, and supply distributions made during the inventory period. For perpetual inventory systems, an employee independent of the inventory and

any custodial function should reconcile the quantities from the physical inventory with balances on the perpetual inventory records. Districts should resolve all reconciling differences before concluding the physical inventory.

The employee responsible for supervising the physical inventory process should review, sign, and date any corrections to inventory tags, inventory count sheets, or electronic inventory system records. If differences are significant, districts should perform another count and review of descriptions. Any discrepancies such as theft, spoilage, or unrecorded sales/purchases should be investigated and reported to district management.

Updating perpetual accounting records—An employee independent of the inventory and any custodial function should make any necessary adjustments to perpetual inventory records to resolve discrepancies noted during the inventory process. Each adjustment should include a description of the change, supporting documentation, and signatures and dates of the employee responsible for the adjustment and the supervisor who approves the adjustment.

Preparing the Inventory List—Districts should prepare a supplies inventory list annually. The inventory list should include item and unit descriptions, purchase document numbers, quantities, unit costs, extended costs, page totals, and a grand total. Districts may obtain the descriptions and quantities from the automated system or manual inventory documents.

If districts use **inventory sheets**, the sheets may also serve as the inventory list. Employees involved in the physical count should complete the item description, unit description, and quantity sections of the inventory list, and then submit it to the district office.

To complete the inventory list, an employee in the district office should:

1. Price the inventory in accordance with the district's adopted costing method and inventory flow assumption using applicable supporting documentation (including vouchers, vendor invoices, and purchase orders), and record the purchase document numbers and unit cost on the inventory list.
2. Compile, extend, and total the inventory list.
3. Sign and date the list to document responsibility for the valuation of the items.

If a physical inventory is not taken, districts should prepare the inventory list from the **perpetual inventory record** at fiscal year-end.

Districts should have a second employee, independent of any custodial function, verify the accuracy of the inventory list on a test basis by comparing amounts to supporting documentation and verifying extended costs and totals. Any discrepancies should be investigated, and any necessary adjustments should be made to the list. Each adjustment should include a description of the change, supporting documentation, and signatures and dates of the employee responsible for the adjustment and the supervisor who approves the adjustment.

Districts should retain all support for the physical inventory and inventory list such as inventory tags, **inventory sheets**, logs, written instructions, and automated system information. The date of the inventory should be clearly documented to ensure that a physical inventory is taken at least

once every 3 years and assist with any necessary reconciliation of the inventory to year-end supply levels for reporting purposes.

Inventory Pricing

Inventory valuations may directly affect the district's financial reports. Therefore, consistency in valuing the inventory is required to facilitate the comparison of financial reports from year to year and from district to district. Districts should use actual costs to determine inventory value. Cost includes invoice price plus ancillary costs such as freight, sales taxes, and any other handling costs. United States Department of Agriculture (USDA) donated commodities should be valued at the estimated fair value established by the Arizona Department of Education, Health and Nutrition Services. Districts should retain supporting documentation to verify costs recorded on the supplies inventory list.

Districts may determine the cost of supplies inventory by associating a flow of costs with the flow of supplies inventory transactions. The district should adopt and consistently apply the cost flow assumption from year to year. The cost flow assumption does not necessarily have to be consistent with the actual physical movement of the goods. The 3 most common cost flow assumptions are first-in, first-out (FIFO); last-in, first-out (LIFO); and average cost.

The FIFO method is based upon the assumption that the first items purchased are the first items out of inventory. Under this method, the invoice prices of the most recent purchases represent the cost of the ending inventory. The advantage of the FIFO method is that it provides a more accurate valuation of the cost of supplies remaining in inventory by tying the cost of items to their most recent prices.

The LIFO method is based on the assumption that the last items purchased are the first items out of inventory. The advantage of the LIFO method is that it provides a more accurate valuation of the cost of supplies used during the period, particularly when stock of items is not rotated in storage when new stock is received (e.g., when new reams of paper are stacked on top of reams already in storage).

The average cost flow assumption assigns costs to inventory items based on the average cost of all such items in the inventory using the average cost of the items over time from separate purchases.

The example on the following page illustrates a perpetual inventory record using the FIFO cost flow assumption.

PERPETUAL INVENTORY RECORD **EXAMPLE**

Location: Bin 5
Stock No. : RC378X
Description: Electrical Switch

Unit of Measure: 1 switch
Maximum Stock: 15
Maximum Stock: 04

Transaction Date	PURCHASES				ISSUES				BALANCE		
	P.O. No	Units	Unit Cost	Total Cost	Issue No	Units	Unit Cost	Total Cost	Units	Unit Cost	Amount
6/1/XX	100	10	$1.00	$10.00					10	$1.00	$10.00
6/5/XX	101	5	1.50	7.50					10 5	1.00 1.50	17.50
6/10/XX					200	6	$1.00	$6.00	4 5	1.00 1.50	11.50
6/12/XX					201	4 1	1.00 1.50	4.00 1.50	4	1.50	6.00
6/20/XX	102	5	2.00	10.00					4 5	1.50 2.00	16.00
6/21/XX					202	4 1	1.50 2.00	6.00 2.00	4	2.00	8.00
6/30/XX	103	5	2.10	10.50					4 5	2.00 2.10	18.50

Note: The valuation of the 9 items remaining at June 30, 20XX, is $18.50 and may be obtained directly from the perpetual inventory accounting record. Under a periodic system, the value would be the same but would have to be calculated using the physical inventory list and supporting documents.

_____SCHOOL DISTRICT NO. ___

PERPETUAL INVENTORY RECORD

Location: _____ Unit of Measure: _____

Stock No.: _____ Maximum Stock: _____

Description: _____ Minimum Stock: _____

Transaction Date	PURCHASES				ISSUES				BALANCE		
	P.O. No	Units	Unit Cost	Total Cost	Issue No	Units	Unit Cost	Total Cost	Units	Unit Cost	Amount
			$	$			$	$		$	$

_____SCHOOL DISTRICT NO. ____

SUPPLIES REQUISITION/ISSUE FORM

No.: (numbered consecutively when received)

Date: _____

Requested by: _____
Approved by: _____
Department: _____
Location: _____

Item Stock No.	Quantity Ordered	Quantity Issued	Description	Unit of Measure	Unit Cost	Total Cost
					$	$

Total Amount $_____

Issued by: _____
Title: _____
Date: _____

Received by: _____
Title: _____
Date: _____

_____SCHOOL DISTRICT NO. _____

Sheet No.: (prenumbered)

INVENTORY SHEET

INVENTORY _____20____

Department	Location:
Called/Counted by:	Price/Extended by:
Entered/Recorded by:	Verified Costs/Extensions/Totals:
Test Counts by:	

Item Stock No	Invoice/ Purchase Order No.(s)	Description	Quantity	Unit of Measure	Unit Cost	Extended Cost Total
					$	$

Page Total $_____

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	1
PROCEDURES	2
Classifying Capital Assets	2
Capital Assets List	4
Stewardship List	5
Physical Controls	6
Asset Valuation	6
Depreciation and Amortization	9
Acquisitions, Transfers, and Disposals	10
Reconciling Capitalized Acquisitions to Total Capital Expenditures	11
Reconciling the Previous Year's June 30 Capital Assets List to the Current Year's June 30 Capital Assets List	14
Physical Inventory	14

Sample Forms

AUTHORIZATION TO TRANSFER EQUIPMENT	17
REQUEST FOR AUTHORIZATION TO DISPOSE OF DISTRICT PROPERTY	18
RECONCILIATION OF CAPITAL ASSET ACQUISITIONS TO TOTAL CAPITAL EXPENDITURES	19
RECONCILIATION OF PREVIOUS YEAR'S JUNE 30 CAPITAL ASSETS LIST TO CURRENT YEAR'S JUNE 30 CAPITAL ASSETS LIST	20
EQUIPMENT INVENTORY SHEET	21

INTRODUCTION

Districts invest significant resources in the acquisition and maintenance of district property, including capital assets and other property. Generally, capital assets consist of land, land improvements, buildings, building improvements, and equipment, including intangible right-to-use lease and subscription assets, with a unit cost of $5,000 or more. Additionally, assets with a unit cost below $5,000 should be grouped for capitalization if, in the aggregate, their cost is significant. Examples of assets that may require grouped asset capitalization include computers and classroom furniture. Other property primarily includes equipment items with a unit cost of less than $5,000 that meet the equipment criteria described in the **Chart of Accounts section** and therefore are not of a consumable nature. Districts should establish a complete property control system to protect all district property.

Internal control over district property should be adequate to:

- Safeguard property against theft and misuse.
- Promote appropriate and efficient use of district property.
- Properly value, classify, and report capital assets.
- Accumulate data for effective planning for property acquisitions, replacements, and maintenance.
- Provide documentation for insurance purposes in the event of fire or other casualty loss.
- Provide accurate information for district stakeholders.
- Ensure compliance with federal guidelines as defined by each grantor agency for federally owned equipment and equipment purchased in whole or in part with federal monies.

Districts should tailor internal control to their specific needs. The recommended controls described in this section provide an effective system of property control that districts can use with automated or manual systems. Districts may use other controls if they provide at least the same level of internal control. See the **Information Technology section**, for information regarding general and application controls for automated systems.

POLICIES

To comply with statutory requirements to manage and control district property and provide effective internal control, the district should:

1. Adequately insure all district property.
2. Physically control district property to help prevent damage, theft, loss, or misuse.

3. Establish a governing board approved capitalization threshold of $5,000 or less for reporting capital assets in financial statements.
4. Maintain a detailed capital assets list including all required information by separate asset category for all land, land improvements, buildings, building improvements, and equipment with unit costs or grouped assets costs, if significant, in excess of the district's adopted capitalization threshold. Districts should include intangible right-to-use assets in the capital assets list, as described in the procedures below, or maintain a separate list(s) for such assets that includes all information needed to facilitate financial statement reporting.
5. Maintain capital assets' documentation to support capital assets list information and applicable assets' annual depreciation calculations, such as useful life and residual value estimates, that may be maintained in a separate schedule.
6. Maintain a detailed stewardship list including all required information for equipment with a unit cost of $1,000 or more but less than the district's adopted capitalization threshold.
7. Perform an equipment physical inventory at least every 3 years and reconcile it to the stewardship and capital assets lists. However, equipment purchased in whole or in part with federal monies must be inventoried at least every 2 years in accordance with 2 Code of Federal Regulations (CFR) §200.313.
8. Comply with applicable district property disposal statutes and rules, such as Arizona Revised Statutes (A.R.S.) §§15-341(G) and 15-342, Arizona Administrative Code (A.A.C.) R7-2-1131, and 2 CFR §200.313.
9. Manage federally owned equipment that is required to remain vested in the federal government in accordance with the federal agency's rules and procedures. 2 CFR §200.312

PROCEDURES

The following are recommended procedures for establishing and maintaining a complete property control system.

Classifying Capital Assets

Capital assets are generally classified into distinct categories for financial statement presentation. In addition to allowing more detailed reporting of capital assets in financial reports, this classification is necessary to calculate depreciation or amortization on the applicable assets as described on **page 9**. Also, as different identification and physical security controls apply to different classes of property based on the inherent risk for each classification, separately classifying assets allows the district to apply the appropriate controls to each type of asset. Capital assets are classified as follows:

Intangible Right-to-Use Assets

Includes all assets that districts acquire the right to use for more than 12 months through lease agreements or subscription-based information technology arrangements. Districts are required to further identify leased assets for financial reporting purposes by major underlying asset category but should not double report lease or subscription assets by including them in the asset classifications below for assets acquired by purchase, financed purchase, or other means, such as donation.

Equipment

Includes all tangible personal property not affixed to land or buildings, excluding intangible right-to-use assets. Examples include machinery, tools, vehicles, and furniture. See Building Improvements and Land Improvements below for classification of affixed, nonmovable equipment.

Buildings

Includes all structures meant to provide shelter for people or shelter or storage for district property and existing improvements to such buildings at the time of acquisition, excluding intangible right-to-use assets.

Building Improvements[1]

Includes all improvements made to buildings after acquisition. Also includes fixtures (nonmovable equipment) installed after the building's acquisition that cannot be removed without damaging the building or the fixture, such as heating and air conditioning equipment or security systems, excluding intangible right-to-use assets. Such fixtures or systems already in place at the completion of construction or acquisition of a building are classified as part of the building rather than a building improvement.

Land

Includes all land, easements, and existing permanent improvements made to land such as grading or soil treatment, excluding intangible right-to-use assets. Also includes initial site preparation costs if not directly connected with the construction of buildings or improvements to buildings, such as clearing, filling, grading, or demolition. Conversely, districts should classify any site preparation costs directly connected with the construction of buildings or improvements to buildings in the building or building improvement categories, as applicable.

[1] Districts should distinguish between expenditures for improvements and expenditures for repairs and maintenance. Expenditures for repairs and maintenance return an asset to its normal operating condition.

Land Improvements[2]

Includes all permanent and nonpermanent improvements made to land after its initial acquisition such as fencing, nonmovable bleachers, playground equipment, shade structures, or surfacing, excluding intangible right-to-use assets. Also includes any nonpermanent improvements that existed when the land was acquired so that it can be properly depreciated. Generally, land improvements paid for by the Adjacent Ways Fund are not considered district assets since they are not improvements to district property. However, if adjacent ways monies are used to improve district property to assure the safe ingress to and egress from district property directly adjacent to the public way for buses and fire equipment, the district would include the improvement in land improvements.

Capital Assets List

The capital assets list should include all land, land improvements, buildings, building improvements, and equipment, including financed purchases, with unit costs of $5,000 or more. Additionally, for assets with unit costs below $5,000, if in the aggregate, their cost is significant, the district should group the assets for capitalization and add them to the capital assets list. The governing board may choose to establish a lower capitalization threshold for the district. If the governing board adopts a lower threshold, the district should apply it consistently to all related assets. The capital assets list should be maintained by separate asset classification as described above. However, districts should include intangible right-to-use assets on the list in the other asset categories (e.g., land, buildings, or equipment) indicating lease or subscription as the method of acquisition to separately identify such assets. Districts should include the following information on the list for each item:

1. **Location—**School, department, building, room, etc.
2. **Identification number for equipment—**Tag number, serial number, barcode, or other number that specifically identifies the asset.
3. **Description—**Name, model number, size, color, etc., to help identify the asset.
4. **Method of acquisition—**Purchase (e.g., construction, financed purchase agreement or trade), lease or subscription greater than 12 months, or donation.
5. **Source of funding—**Fund used to purchase the asset.
6. **Acquisition date—**Month and year the asset was received or constructed. If the acquisition date is unknown, districts may record an estimated date on the list.

[2] Districts should distinguish between expenditures for improvements and expenditures for repairs and maintenance. Expenditures for repairs and maintenance return an asset to its normal operating condition.

7. **Purchase document number—**Purchase order, voucher, or other document number that can be traced to documents that support the information recorded on the list. This support should be retained for the life of the asset.
8. **Cost—**Actual cost or donation fair market value. Otherwise, estimated historical cost. (See Asset Valuation starting on **page 6**).
9. **Depreciation or Amortization—**Information for each depreciable or amortizable asset as described on **page 9** unless maintained in a separate depreciation or amortization schedule that is cross-referenced to the capital assets list.

For property purchased with federal monies the following information should be included in the capital assets list or other record to facilitate federal asset reporting as required by 2 CFR §§200.312 and 313:

1. Who holds title to the property.
2. Percentage of federal participation in the asset's cost.
3. Use and condition of the property.
4. Disposition data including the date of disposal and sale price of the property.

Stewardship List

To help safeguard and control significant equipment not required to be included on the capital assets list, districts should maintain a stewardship list for all equipment, including financed purchases, with a unit cost of $1,000 or more but less than the district's adopted cost threshold for capitalization. Districts may also choose to maintain a list of equipment with unit costs of less than $1,000 to help prevent theft or misuse of higher risk items, such as laptop computers, tablets, and other technological devices. The required stewardship list should include the following information for each equipment item:

1. **Location—**School, department, building, room, etc.
2. **Identification number—**Tag number, serial number, barcode, or other number that specifically identifies the equipment.
3. **Description—**Name, model number, size, color, etc., to help identify the equipment.
4. **Acquisition date—**Month and year the equipment was received. If the acquisition date is unknown, districts may record an estimated date on the list.

Although cost is not required to be included on the stewardship list, it may be included to assist districts in ensuring all appropriate items are recorded on the capital assets and stewardship lists.

Physical Controls

Property Identification

1. Districts should identify all property with unit costs greater than $50 as district property using a tag or otherwise permanently marking items to facilitate possible return if the item is lost or stolen.
2. Districts should also tag, mark with an identifying number, or specifically identify by some other means such as serial number or barcode each equipment item they are required to include on the capital assets or stewardship list.
    a. To assist in conducting physical inventories of equipment, identification numbers should be placed in a conspicuous and uniform position on items when they are received.
    b. If preprinted tags or barcode stickers are used, the district should distribute them to each location that receives equipment and keep a record of the tag numbers issued. Tags should be sequentially numbered and issued.
    c. Small or valuable items, such as musical instruments, are not required to be tagged if this would impair the item's value or usefulness. Engraving or permanently marking such items is recommended to facilitate their possible return if they are lost or stolen.

Physical Security

Districts should safeguard district property from theft, loss, unauthorized use, and damage. Districts should use locks, alarm systems, and check -in and -out or usage logs or reports to restrict and monitor use. Districts should restrict access to district buildings and equipment to appropriate personnel and appropriate hours based on the intended use.

If property, such as audio/visual equipment, media items, computers, or vehicles, is checked out from a central area, procedures should be in place to track the reason for use, the person responsible for the property while checked out, and the return of property. Additionally, detailed mileage and use logs should be created and reviewed for district vehicles to ensure the vehicles are used only for district business.

Districts should safeguard property against environmental hazards. Districts should protect equipment sensitive to humidity and temperature changes from harmful climates to the extent practicable.

Asset Valuation

Properly valuing assets assists with recording them on the capital assets and stewardship lists and helps ensure that capital assets are recorded accurately in financial reports. Districts should generally value assets other than those donated at actual cost, or estimated

historical cost when records of actual cost are not available.[3] Districts should not value assets at insurance or replacement value. Districts should record donated assets at fair market value at acquisition. Districts should evaluate the terms of financed purchase, lease, and subscription asset acquisition agreements as described below to determine such assets' valuation.

Valuation for assets should also include any charges necessary to put the asset in its intended location and condition for use even if the charges are billed separately. The table below identifies examples of additional charges that districts should include in an asset's value based on the asset's classification.

Table: Additional Charges by Asset Category

Equipment	Land and Improvements	Buildings and Improvements
• Taxes • Freight, delivery • Installation • Assembly • Testing	Fees for services: • Legal • Escrow and title • Architectural • Survey and appraisal • Recording Assumption of: • Liens • Delinquent taxes	Fees for services: • Legal • Architectural and engineering • Permits and licenses • Escrow and title

Districts need to consider additional information to value assets that require cost allocation (i.e., when more than one asset is acquired in the same transaction), construction contracts, financed purchase agreements, leases, subscription-based information technology arrangements, or trade-ins.

[3] Estimated historical cost may be obtained from a historical cost appraisal or some other reasonable means such as historical vendor catalogs, price quotes, price lists, or governing board meeting minutes. Documentation supporting the estimated cost should be retained. If the asset recorded at estimated historical cost is subject to depreciation, the cost on the depreciation schedule should be reduced by the appropriate amount of accumulated depreciation based on the known or estimated age of the asset.

Allocating Asset Costs

For assets acquired in a single transaction each costing over the individual asset capitalization threshold such as a bulk purchase of equipment, buildings and land purchased together, or land purchased with existing nonpermanent improvements, districts should allocate the total cost proportionately among the assets. Allocating costs for like items purchased together is accomplished by totaling the acquisition cost and all incidental charges and equally distributing the cost over the items purchased. For nonlike items such as buildings and related land or land and nonpermanent improvements acquired together, districts should base the allocation on the fair market value of each asset at the date of acquisition.

Construction Contracts

Districts should accumulate all costs incurred during the construction period as construction-in-progress until completion of the project. Such costs may include architectural and engineering fees; construction supplies and labor; temporary buildings used for construction offices and storage; permits, licenses, and fees; workers' compensation and casualty insurance premiums; and easements. If district employees construct an asset, districts should include their related salaries, wages, and employee benefits in the constructed asset's cost on the capital assets list. Districts should not include construction in progress on the capital assets list. After the project is completed, the district should reclassify the asset from the construction-in-progress category to be an asset or part of an asset in the appropriate category such as land improvements, buildings, or building improvements.

Financed purchase agreements

Financed purchase agreements transfer ownership of the underlying asset by the end of the contract and do not contain termination options other than fiscal funding or cancellation clauses that are not reasonably certain to be exercised. In accordance with generally accepted accounting principles, the district should value financed purchase agreements that are recorded on the capital assets list at the lesser of the fair market value at the inception of the agreement, or the present value of the net minimum payments (usually the principal amount) at the beginning of the agreement term, excluding executory costs and interest.

Leases (more than 12 months)

Leases convey control of the right-to-use another entity's nonfinancial asset for a period of time in an exchange or exchange-like transaction. Districts should initially calculate the capitalized leased asset value as the sum of the following:

1. The amount of the initial measurement of the lease liability (see Governmental Accounting Standards Board (GASB) Statement No. 87, paragraph 21).

2. Lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives (see GASB Statement No. 87, paragraphs 61 and 62) received from the lessor at or before the commencement of the lease term.
3. Initial direct costs that are ancillary charges necessary to place the lease asset into service.

Subscription-Based Information Technology Arrangements (SBITAs) (more than 12 months)

SBITAs convey control of the right-to-use another parties IT software, alone or in combination with tangible capital assets, for a period of time in an exchange or exchange-like transaction. Districts should initially calculate the capitalized SBITA asset value as the sum of the following, less any incentives (see GASB Statement No. 96, paragraphs 42 and 43) received from the SBITA vendor at the commencement of the subscription term:

1. The amount of the initial measurement of the subscription liability (see GASB Statement No. 96, paragraph 16).
2. Payments associated with the SBITA contract made to the SBITA vendor at the commencement of the subscription term, if applicable.
3. Capitalizable initial implementation costs (see GASB Statement No. 96, paragraph 29b).

Trade-in

Districts should record the new asset's fair market value (i.e., total invoice price including fees such as taxes, title, and licensing), regardless of trade in value, on the capital assets list and should remove the asset that was traded in from the list. For example, a vehicle with a total invoice price of $60,000 is acquired by payment of $52,000 cash and the trade-in of another vehicle for $8,000. The new vehicle should be valued at $60,000.

Depreciation and Amortization

Depreciation for tangible capital assets, or amortization for intangible capital assets, expenses the cost of an asset, less its salvage value, over the years of service. Districts must calculate depreciation and amortization in a systematic and rational manner in accordance with generally accepted accounting principles for all applicable capital assets to facilitate financial statement reporting. Districts should depreciate applicable tangible capital assets over their estimated useful lives. Districts should not depreciate the cost of inexhaustible capital assets such as land, land improvements that produce a permanent benefit (e.g., fill and grading costs), permanent easements, and construction in progress.

Districts should amortize intangible right-to-use lease assets over the shorter of the lease term or the useful life of the underlying asset, unless the lease contains a purchase option that the district has determined is reasonably certain of being exercised—then the lease asset should be amortized over the useful life of the underlying asset. If a purchase option is reasonably certain of being exercised, and the underlying asset is nondepreciable, such as land, the lease asset should not be amortized. Intangible right-to-use subscription assets should be amortized over the shorter of the subscription term or the useful life of the underlying IT assets.

The district should maintain information required for depreciation or amortization (useful life, lease or subscription term, salvage value, use function, and the calculated annual and accumulated depreciation or amortization amount) in the same format as the capital assets list or include it in a separate schedule that is cross-referenced to the capital assets list.

In determining the use function for depreciation or amortization, districts should use the function code from the **Chart of Accounts section** for the area in which the asset is used, which may not be the same as the expenditure function code used when the asset was acquired. For example, classroom buildings are depreciated to function code 1000—Instruction rather than 4000—Facilities Acquisition and Construction Services. The district should review the function for depreciation or amortization when an asset's use is changed.

Acquisitions, Transfers, and Disposals

Acquisitions

Districts may maintain a separate list of capital asset and stewardship acquisitions during the year and use it to update the appropriate list at fiscal year-end. Alternatively, districts may update the capital assets and stewardship lists directly for acquisitions as they occur. If a separate list of acquisitions is not prepared, districts should use the capital assets list sorted by acquisition date to assist in reconciling the previous year's capital assets list to the current year's capital assets list and capital asset acquisitions to total capital expenditures.

Transfers

Districts should establish procedures to transfer equipment between locations. The principal or employee responsible for the equipment being transferred should prepare the **Authorization to Transfer Equipment form** or a similar form. An authorized employee should approve the transfer before the transfer is made. Districts should update the capital assets or stewardship list when a properly approved transfer form is completed, or accumulate transfers and update the lists at fiscal year-end before conducting any physical inventory.

Disposals

Districts may maintain a separate list of capital asset and stewardship disposals during the year and use it to update the appropriate list at fiscal year-end. Alternatively, districts may

update the capital assets and stewardship lists directly for disposals as they occur. Districts should retain disposal documentation to support the deletions from the lists and use disposal information when reconciling the previous year's capital assets list to the current year's capital assets list.

Districts should comply with applicable statutes and rules, such as A.R.S. §§15-341(G) and 15-342, A.A.C. R7-2-1131, and 2 CFR §200.313, when disposing of district property. Districts should take special care when disposing of equipment that stores information such as computers, copiers, and printers to ensure that personally identifiable information and district licensed software are removed before disposal. Additionally, to document the explanation for and authorization of disposals, districts should:

1. File an incident, police, or similar report to document the circumstances and allow for adequate investigation of the loss or theft of district property. Districts should retain a copy of the report with the asset records to support the asset's removal from the capital assets or stewardship list, as applicable.
2. Complete a Request for **Authorization to Dispose of District Property** form or a similar form for capital asset and stewardship items districts will dispose of by sale, trade-in, or donation or because of obsolescence or damage. The employee responsible for the property should prepare the form and the governing board or authorized designee should approve it prior to disposal.
3. After obtaining appropriate authorization for disposal, maintain a separate list of items awaiting physical disposal for control purposes until the items are properly disposed.

If district property is disposed of by sale, districts should record any proceeds from the sale of assets in the School Plant Fund (500) unless required to be remitted to a State or federal agency, such as Arizona Department of Administration's School Facilities Division as required by A.R.S. §§15-341 or 15-342 or a federal granting agency based on grant requirements.

Reconciling Capitalized Acquisitions to Total Capital Expenditures

Districts should reconcile current year capital acquisitions, to total capital expenditures recorded in the accounting records each fiscal year after all encumbrances have been included in the accounting records. Districts with a large volume of capital asset acquisitions may want to prepare a reconciliation more frequently. The purpose of this reconciliation is to help ensure that all current year acquisitions of land, land improvements, buildings, building improvements, and equipment items with unit costs of $5,000 or more (or a lower dollar amount if adopted by the governing board) are included on the capital assets list. Additionally, assets with a unit cost below $5,000 should be grouped for capitalization if, in the aggregate, their cost is significant. An employee independent of the recordkeeping and

custodial functions for capital assets should prepare the reconciliation, and district management should review and approve the reconciliation. The preparer and reviewer should document review of the reconciliation by manual or electronic signature or initials and date.

Districts should prepare a separate reconciliation for each fund that reported capital expenditures. Compatible property control and accounting systems may be able to automatically compare capital acquisition and expenditure information in a report for review and resolution of any differences. Reconciliations can be presented in other formats but should include all of the information shown on the sample **Reconciliation of Capital Asset Acquisitions to Total Capital Expenditures**. To complete the sample reconciliation, enter the information as follows:

Lines 1-10	Enter the voucher number and date for each voucher that includes capital expenditures, using 1 line per voucher. Enter the capital expenditures from the voucher in the appropriate columns based on the type of asset acquired and the related per-unit cost. The Other Capital Expenditures column should include any capital expenditures from the voucher that were not appropriate to record in the columns to the left, such as supplies purchased from capital funds that are not used for construction, including library books, textbooks, and instructional aids. Districts should use the Total column to total each line and the amount in that column should equal the total capital expenditures reported on that voucher. **Note:** If the unit cost of an item is not apparent from the voucher detail, supporting purchase documents such as purchase orders and vendor invoices should be examined to determine which column the expenditure should be reported in on the reconciliation.
Line 11	Enter the total from all vouchers for each column.
Line 12	Enter the net increase (debit) or decrease (credit) to capital expenditures made through adjusting journal entries in the related columns. Adjustments may include journal entries made to move the cost of salaries, employee benefits, and supplies related to in-house construction projects from the Maintenance and Operation Fund to a capital projects fund.
Line 14	Enter the total cost of additions made to the capital assets list during the fiscal year by asset type. Districts should take the total cost for additions from the capital assets list based on acquisition date or a separate list of acquisitions for the fiscal year used to update the capital assets list.

Line 15	Enter the total construction in progress expenditures reported on the vouchers for projects that were not completed as of the fiscal year-end and, therefore, not added to the capital assets list.
Line 17	Differences between total capital expenditures and total capitalized acquisitions recorded for the fiscal year should be specifically explained and resolved. Districts should make any resulting adjustments to the capital assets list in a timely manner to allow for accurate reporting of capital assets in the district's financial statements and annual financial report. Differences may result from expenditures not made from a capital projects fund that are included in the asset's value, expenditure coding errors, classification errors in completing the reconciliation, or items added to the capital assets list at a value that is not expected to agree with current year expenditures. For example: • Improvements improperly classified as repair and maintenance expenditures. • Assets acquired through trade-in added to the capital assets list. No expenditure is recorded for the value of the trade-in in the related voucher. • Donated assets added to the capital assets list during the fiscal year. No expenditure is recorded for the acquisition because an expenditure was not incurred. • Financed purchases and intangible right-to-use assets acquired through leases or SBITAs added to the capital assets list. Only the current year principal and interest payments will be included in the related voucher. • Multiyear construction projects that were completed in the current year and added to the capital assets list. Only the current year expenditures for the project will be included in the related voucher.

Reconciling the Previous Year's June 30 Capital Assets List to the Current Year's June 30 Capital Assets List

After the district has reconciled capital acquisitions to capital expenditures and updated the capital asset list for acquisitions, transfers, and disposals, districts should reconcile the previous year's June 30 capital assets list total to the current year's June 30 capital assets list total to help ensure the accuracy and continuity of the list. Districts may use the form on **Reconciliation of Previous Year's June 30 Capital Assets List to Current Year's June 30 Capital Assets List** to document this reconciliation.

Line A	Enter the total of each asset category from the previous year's June 30 capital assets list.
Line B	Enter the current year's final adjusted capital asset acquisitions amount after performing the reconciliation of capital asset acquisitions to total capital expenditures.
Line C	Enter the current year's disposals amount from asset disposal documentation for the current year.
Line E	Enter the total of each asset category from the current year's June 30 capital assets list.
Line F	Districts should calculate any differences between the sum of lines A through C, as shown on line D, and the amounts on line E. Districts should specifically explain and resolve noted differences. Any resulting adjustments to the capital assets list should be made in a timely manner to allow for accurate reporting of capital assets in the district's financial statements and annual financial report.

Physical Inventory

Districts should take a physical inventory of all equipment included on the capital assets and stewardship lists at least every 3 years. Districts should also take a complete physical inventory of equipment purchased in whole or in part with federal monies at least every 2 years in accordance with 2 CFR §200.313. To complete the physical inventory of all equipment, districts should:

1. Perform the inventory in a systematic manner and over the shortest reasonable time period to help ensure that equipment is neither omitted nor inventoried more than once due to movement from one location to another. To further assist in obtaining an accurate inventory, districts should restrict movement of existing equipment or placement of new equipment to the extent possible during the physical inventory.

2. Develop written instructions that clearly indicate the procedures for taking the physical inventory. Districts should distribute to and review these instructions with employees participating in the inventory process. Districts should retain these instructions with the physical inventory documents to support the inventory process.
3. Assign a specific employee, independent of capital asset purchasing, custodial, and recordkeeping responsibilities, to manage the physical inventory.
4. Use automated or manual inventory systems to prepare location specific inventories using one of the following methods:
    a. Provide current equipment inventory lists by location to each school or department to confirm items. The lists should include each item's identification number, description, and location. Each school or department should assign an employee not responsible for the custody of equipment to compare the physical equipment to the equipment recorded on the list. Districts should add capital asset or stewardship equipment items in the school or department not included on the list. Such items may include new acquisitions or transfers of equipment from another school or department. Similarly, districts should document equipment on the list that they cannot locate. Each department head or school principal should review and approve the completed inventory. The employees conducting and reviewing the inventory should initial and date the inventory lists to document responsibility.
    b. Use uniform sequentially numbered equipment inventory sheets (see sample **Equipment Inventory Sheet**). The district should distribute inventory sheets to each school or department. Each school or department should assign an employee not responsible for the custody of equipment to perform the inventory. As each area is inventoried, the employee should record the location, tag number, serial number or other identifying number, and description of the equipment on the inventory sheets. Each department head or school principal should review and approve the completed inventory. The employees conducting and reviewing the inventory should initial and date the inventory sheets to document responsibility.
5. Use a control log of the equipment inventory lists or sheets to allow the inventory supervisor to account for the return of all inventory lists or sheets. The control log should indicate the district locations being inventoried and the corresponding inventory lists or sheets related to those locations. Employees conducting the inventory should return all inventory lists or sheets, including unused inventory sheets, to the inventory supervisor. The supervisor should use the control log to document that all inventory lists or sheets were returned and that a complete inventory of capital assets and stewardship items has been performed.

6. Document any damaged or obsolete property noted during the physical inventory. Department heads and school principals should initiate disposal procedures for these items when appropriate so districts can delete them from the capital assets or stewardship list.
7. Assign an employee not involved in the inventory process to verify a sample of the equipment inventoried to help ensure the accuracy of the physical inventory.
8. Ensure the inventory supervisor investigates any differences noted during the inventory and sample verification process and documents final resolution recommendations for any inventory record adjustments and signs and dates the adjustments.
9. Have an employee independent of any custodial function reconcile the results of the inventory with the capital assets and stewardship lists. Any discrepancies should be appropriately investigated, any necessary adjustments should be made to the lists, and support for those adjustments should be retained.
10. Retain all written instructions, inventory lists or sheets, control logs, and other documentation to support the physical inventory. The date of the inventory should be clearly documented to ensure that a physical inventory of all equipment included on the capital assets and stewardship lists is performed at least every 3 years (2 years for equipment purchased in whole or in part with federal monies).

_____ SCHOOL DISTRICT NO. ___

AUTHORIZATION TO TRANSFER EQUIPMENT

Form No. _____

Date: _____

From:

School _____

Department _____

Location _____

To:

School _____

Department _____

Location _____

Tag Number	Serial Number (if any)	Description (Include Model Number)	Capital Asset or Stewardship Item

Notes on Transfer: _____

_____

_____

Signature _____ Date _____

Department Head/Principal

Signature _____ Date _____

Authorized employee

FOR BUSINESS OFFICE USE ONLY

Location updated on capital assets or stewardship list.

Initials _____

Date _____

_____ SCHOOL DISTRICT NO. ___

REQUEST FOR AUTHORIZATION TO DISPOSE OF DISTRICT PROPERTY

Form No. _____

Date: _____

Check one: ☐ Sale ☐ Trade-In ☐ Loss ☐ Donation ☐ Other

From:

School _____

Department _____

Location _____

Tag Number	Serial Number (if any)	Description (Include Model Number)	FOR BUSINESS OFFICE USE ONLY			
			Date Acquired	Recorded Cost/Value	Sale/Trade-In Amount	Disposal Date
				$	$	

Signature _____ Date _____

Department Head/Principal

Signature _____ Date _____

Board/Authorized Designee

FOR BUSINESS OFFICE USE ONLY

Removed from capital assets or stewardship list, if applicable. Initial _____

Date _____

Reason for Disposition: _____

_____

_____ SCHOOL DISTRICT NO. _____

RECONCILIATION OF CAPITAL ASSET ACQUISITIONS TO TOTAL CAPITAL EXPENDITURES

For Fiscal year _____ For Fund _____
Prepared by: _____ Reviewed by: _____
Date: _____ Date: _____

			CAPITAL EXPENDITURES						
	Voucher		Land and Improvements $5,000 or More	Buildings and Improvements $5,000 or More	Land, Buildings, and Improvements Less than $5,000	Equipment $5,000 or More	Equipment Less than $5,000	Other Capital Expenditures	Total
	No.	Date							
1.									
2.									
3.									
4.									
5.									
6.									
7.									
8.									
9.									
10.									
11.	Total Capital Expenditures from Vouchers								
12.	Total Adjustments Related to Capital Acquisitions								
13.	Total Capital Expenditures and Adjustments (Line 11 plus Line 12)								
14.	Total Assets Added to the Capital Assets List								
15.	Construction in Progress								
16.	Subtotal (Line 14 plus Line 15)								
17.	Difference (Line 13 less Line 16)								

Detailed Explanation of Differences: (See attachments)

_____ SCHOOL DISTRICT NO. ___

RECONCILIATION OF PREVIOUS YEAR'S JUNE 30 CAPITAL ASSETS LIST TO CURRENT YEAR'S JUNE 30 CAPITAL ASSETS LIST

Prepared by: _____ Reviewed by: _____

Date: _____ Date: _____

	Land and Land Improvements	Buildings and Building Improvements	Equipment	Total
A. Totals from previous year's capital assets list				
B. Current year's acquisitions				
C. Current year's disposals				
D. Total (Line A plus B less C)				
E. Totals from current year's capital assets list				
F. Difference (Line D less Line E)				

Detailed Explanation of Differences:

_____

_____

_____

_____

_____

_____ SCHOOL DISTRICT NO. ___

EQUIPMENT INVENTORY SHEET

Sheet No. (sequentially numbered)

School: _____ Prepared by: _____

Department: _____ Date: _____

Location: _____ Reviewed by: _____

Date: _____

Tag Number	Serial Number (if any)	Description (Include Model Number)

Damaged or Obsolete Property Noted:

_____

_____

_____

In accordance with Arizona Revised Statutes (A.R.S.), school district governing boards may allow a superintendent, principal, or representatives of the superintendent or principal to travel for a school purpose, as determined by a governing board majority vote. Districts may also permit governing board members and members-elect to travel for school purposes and receive reimbursement. Statute requires districts to prescribe procedures and amounts for reimbursing travel expenses. However, travel expenses, including reimbursements, must not exceed the maximum amounts established by the Arizona Department of Administration (ADOA) in accordance with A.R.S. §38-621 et seq. A.R.S. §15-342(5)

POLICIES

The ADOA Travel Policy is part of the ***State of Arizona Accounting Manual*** (SAAM). SAAM Topic 50-Travel provides detailed guidance and rate tables for the required mileage reimbursement per mile and the maximum lodging and meal reimbursements. Key provisions from ADOA's policies are listed below with policies that districts should implement to provide adequate internal control over travel expenditures:

1. Districts should approve employee and governing board member travel in advance. To be eligible for lodging and meal expenses, employees and governing board members must be in authorized travel status and at least 50 miles from both their duty post and home. The duty post for governing board members is considered to be their home. A.R.S. §15-342(5)
2. Travel should be planned for the district's convenience using the most reasonable and economic means.
3. All travel expenditures, including reimbursements to employees or governing board members, should be supported by a travel claim and other documents to support the travel costs. Documents should include detailed receipts or invoices if required by district policy. Travel claims must indicate the time and place travel begins and ends, include odometer readings or map mileage, and be signed by the employee and approved by the appropriate supervisor. Employees and governing board members should submit travel claims with related supporting documents in a timely manner to help ensure that supporting documents are not lost and travel expenditures are recorded in the proper fiscal year.
4. Districts must reimburse employees and governing board members for mileage traveled in privately owned motor vehicles or aircraft, with district approval, at the applicable rate established by ADOA, as approved by the Joint Legislative Budget Committee. A.R.S. §§15-342(5) and 38-623
5. Travel expenses, including reimbursements, for lodging, meals, and incidental expenses, must not exceed the maximum amounts set in ADOA Travel Policy in accordance with A.R.S. §38-624(C). However, note the following:

a. The maximum lodging rates listed in ADOA's reimbursement rates table are exclusive of taxes. Therefore, the maximum allowable district lodging expense is the ADOA maximum lodging rate plus any applicable taxes, except as described in 5.b. below.

b. Lodging rates while attending a conference, training, or similar event may exceed ADOA's maximum amounts if the rate does not exceed the lowest listed single room rate the conference/event sponsor negotiated. Districts must retain a copy of the event publication, such as a brochure, flyer, or other support, submitted with the travel claim to support the excess reimbursement.

c. Meal reimbursements include the actual amount spent for a meal, including beverages (excluding alcohol), taxes, and tip, not to exceed the maximum meal reimbursement amounts. Meal reimbursements cannot be claimed when meals are provided at no additional expense, such as complimentary meals provided at a conference or hotel.

d. Meal reimbursements provided to employees or governing board members may be taxable. The Internal Revenue Service requires employees to be traveling "away from home" in order to exclude reimbursements for meals from their income. The phrase "away from home" means overnight travel or travel long enough to require substantial "sleep or rest" (further defined by IRS regulations). As a result, districts must report all meal reimbursements for travel with no overnight stay as taxable employee benefits. For travel with an overnight stay, districts should exclude meal reimbursements from income for the day of and the day after the actual overnight stay.

CONTENTS

Topic Page

INTRODUCTION 1

POLICIES 2

PROCEDURES 3

Student Club Activity 3

Accounting Records and Required Reporting 4

Capital Assets 5

Sample Forms

STUDENT ACTIVITIES REPORT OF CASH RECEIPTS, DISBURSEMENTS, TRANSFERS, AND CASH BALANCES 6

STUDENT CLUB MEETING MINUTES 7

INTRODUCTION

Student activities are defined in Arizona Revised Statutes (A.R.S.) §15-1121 as student clubs, organizations, school plays, or other student entertainment (hereafter referred to as student clubs). Student activities monies are raised by students' efforts with the governing board's approval. These monies must be accounted for in a Student Activities Fund held on deposit with the county treasurer or in an authorized bank account with a financial institution.

If a district has student activities, the governing board must appoint a student activities treasurer to provide administration and oversight of student activities monies. In districts with multiple schools, the governing board may appoint an assistant student activities treasurer for each school. The student activities treasurer and assistant student activities treasurers, as applicable, are ultimately responsible for all student activities monies. Therefore, the student activities treasurer should establish internal controls over student activities that are adequate to:

- Ensure the district has appropriate oversight over student clubs.
- Ensure student activities monies are adequately safeguarded from fraud, theft, and misuse.
- Ensure student club activity is properly authorized by each club and documented in club meeting minutes.
- Maintain accurate and complete records of student club financial activity and present the records to the governing board monthly.

This section provides an overview of specific student activities requirements that are not already addressed in other USFR sections. In addition to this section, districts should adhere to the following in its administration of student activities:

- Governing board responsibilities for approving fundraisers, establishing treasurer(s) and bank account(s), and reviewing monthly reports in the **Governing Board and Management Procedures section**.
- Conflict-of-interest disclosure and remediation requirements in the **Conflict of Interest section**.
- Cash collection, depositing, and change fund procedures in the **Revenues section**.
- Expenditure processing in the **Expenditures section** when the Student Activities Fund is held at the county treasurer and not in a local bank account.
- Student Activities Fund revolving bank accounts procedures, special use bank account disbursements procedures (if the Student Activities Fund is held in a bank account instead of at the county treasurer), and bank account reconciliation procedures in the **Bank Accounts section**.
- Source document, journal, ledger, and reconciliation (if the Student Activities Fund is held at the county treasurer instead of in a bank account) requirements in the **Accounting Records section**.

- Recording student activities revenues and disbursements as prescribed in the **Chart of Accounts section** in district accounting records.
- General and application controls for automated systems in the **Information Technology section**.
- Retention schedules provided in the **Records Management section**.

POLICIES

District governing boards should adopt written policies over student activities and the administration of the Student Activities Fund and distribute them to all employees with student activities-related responsibilities, including club sponsors. The district's policies should, at a minimum, address the following to comply with statutory requirements and establish effective internal controls over student activities:

1. The governing board must appoint a student activities treasurer, and in school districts with multiple schools, the governing board may appoint an assistant student activities treasurer for each school. A.R.S. §15-1122
2. The governing board must preapprove all student activities fundraising events pursuant to A.R.S. §15-1121.
3. A student club may participate in a joint fundraising project with an outside group such as a parent-teacher organization if the governing board has approved the project. The proceeds should be allocated proportionately between the 2 organizations based on the proportion of effort each group devoted to the project. Attorney General (AG) Opinion I84-032
4. In general, a student club may not hold a raffle. AG Opinion I84-018 states that only clubs that are not school controlled (such as off-campus clubs, clubs sponsored by civic groups, or parent-teacher organizations) and fit within the tax-exempt categories defined by A.R.S. §43-1201 may hold raffles if they also meet the requirements of A.R.S. §13-3302(B).
5. Any student activities disbursements must be authorized by or on behalf of the student members of the particular club or organization. A.R.S. §15-1122 The district should ensure that the individual club or organization's cash balance is sufficient before authorizing the disbursement.
6. Disbursements from Student Activities Fund bank accounts must be made by check, signed by 2 persons, one of whom must be the student activities treasurer or assistant treasurer, and the other must be any other person authorized to sign by the governing board. A.R.S. §15-1122
7. The treasurer must maintain a detailed record of all cash receipts, disbursements, transfers, and cash balances of the Student Activities Fund. A report of this information must be presented to the governing board at least monthly. A.R.S. §15-1123
8. The student activities treasurer or assistant student activities treasurer must maintain a current record of the balances due to each student club. The records should be open to inspection by officers of the student clubs. A.R.S. §15-1122

9. Student Activities Fund monies may be invested and reinvested by the governing board of a school district. All monies earned by investment shall be credited to the district's Student Activities Fund. A.R.S. 15-1123
10. Student activities monies should not be used to defray any district expense, such as bank fees, or pay expenses that the district historically paid for, but may be used to supplement the students' educational activities or programs as long as that decision is made by the students without any coercion from district employees. AG Opinion I84-032

PROCEDURES

Districts should establish written procedures for student activities and the administration of the Student Activities Fund. The district's procedures should, at a minimum, address the following to establish effective internal controls over student activities:

1. District and school management should participate in developing policies, procedures, and regulations for the supervision and administration of student fundraising events, including joint fundraising, and activities, including travel.
2. The district should appoint a district employee as sponsor for each student club, including student council, to supervise the club activities and meetings.
3. Student activities monies should be expended in a manner beneficial to those students currently in school. Students must actively participate in fund management, including deciding how funds will be spent, documenting decisions, and reviewing club balances.
4. Each club should prepare minutes of each meeting. Approval to make any disbursements should be documented in the minutes. For lower grades, the club sponsor may need to facilitate the documentation of meeting minutes.
5. Arizona Administrative Code R7-2-1002(C) exempts Student Activities Fund purchases from the school district procurement rules prescribed by the State Board of Education, unless district monies are involved or the vendor is a district employee or governing board member. However, to maximize purchasing power, districts should consider following the procurement rules or similar procedures for Student Activities Fund purchases that meet or exceed the amount requiring sealed bids, as calculated by the State Board of Education in accordance with A.R.S. §15-213. Additionally, districts should follow the written quotation guidelines in the **Procurement section** for Student Activities Fund purchases costing less than that amount.

Student Club Activity

Student activities monies are derived from a variety of sources, as approved by the governing board. Fundraising may include ticket sales, club dues, interest, salvage drives and donations to the specific club.

The district or each school site should appoint club sponsors to oversee individual clubs. Each student club should elect officers and hold meetings to make decisions related to fundraising, activities, and disbursements. Each club meeting should document meeting minutes that include a

summary of the meeting's discussions, any significant decisions made (motions), the club's cash balance, approved disbursements, required student officer signatures, and the club sponsor's signature. See the sample **Student Club Meeting Minutes Form**. Student clubs are responsible for monitoring their cash balances and should not approve spending in excess of their current balance. Any monies generated by the whole student body should be administered by the student council and may be expended for reasonable and necessary expenses under the policies and procedures established by the governing board.

Transactions between club accounts

Transactions between club accounts, also referred to as transfers, may be needed for the following:

1. Moving a defunct club's cash balance to the general student council account.
2. Allocation of cash from one club to another club for a joint fundraising venture that was recorded in one club's account.
3. Sales of supplies between clubs.
4. Loans of student council money for a club to start.

Moving a defunct club's cash balance should be authorized by the student activities treasurer or assistant student activities treasurer and the student council. Other interclub transactions should be authorized by the student club and documented in the meeting minutes. The student activities treasurer or assistant student activities treasurer should document interclub transactions in the Student Activities Fund subsidiary ledger accounting records.

Purchases from employees or governing board members

Student clubs must follow the procurement rules as described in the **Procurement section** for any purchase from a district employee and purchases of services from governing board members, in accordance with A.R.S. §38-503. Districts should provide club sponsors with lists of vendors owned by district employees or governing board members and require the sponsor to verify that the vendor is either not on the list or that the procurement rules are followed. The district may assist the club in meeting procurement requirements but may not assist in choosing a vendor on behalf of the student club. Any employee or board member who is a vendor being considered should not participate in the purchase in any manner.

Accounting Records and Required Reporting

Districts should include all Student Activities Fund transactions in the district's general ledger accounting records and report the information on their annual financial report (AFR). In addition, districts should maintain a subsidiary ledger(s) that include detailed club activity. The subsidiary ledger(s) must identify the school and club for each Student Activities Fund transaction and identify the specific cash balances maintained for each club. Individual clubs should also maintain their own cash balances to facilitate stewardship. The club may appoint a club officer to record cash, intrafund transfers, interclub transactions, and other entries to determine the expected cash balance.

The student activities treasurer must prepare a monthly report of cash receipts, disbursements, transfers, and cash balances (see the sample **Report of Cash Receipts, Disbursements, Transfers, and Cash Balances**) by club/organization and present it to the governing board pursuant to A.R.S. §15-1123. The student activities treasurer may also provide the report information to each club/organization. In a multi-school district, the assistant student activities treasurer should prepare a report monthly for each school site if separate bank accounts are maintained and submit it to the student activities treasurer to facilitate preparing the district-wide report.

The combined cash balances for all clubs in the subsidiary ledger(s) should equal the total cash and investments in the district's Student Activities Fund. Districts with assistant student activities treasurers and bank accounts for each school site should maintain the subsidiary ledgers for each school site. The student activities treasurer should compile accounting information from all subsidiary ledgers for recording in the district's general ledger. If student club transactions are maintained only in subsidiary ledgers throughout the year, the district should record summary level journal entries to include student activities revenues and expenditures in the general ledger by fund, program, function, and object code, as applicable, in accordance with the **Chart of Accounts section** before preparing the AFR.

The student activities treasurer should allocate interest earned on investments of the Student Activities Fund on a pro rata basis to the appropriate clubs having monies on deposit. However, interest earned may be deposited into the student council club balance to benefit the entire student body if all student clubs provide written consent.

Capital Assets

Assets purchased with Student Activities Fund monies should not be included on the district's capital assets list since they are not district property; however, the district may choose to maintain a separate list for Student Activities Fund assets above a certain dollar amount to ensure proper tracking. If a student club votes to donate an asset to the district, the decision should be documented in the club's meeting minutes and in a written statement signed by the club president and sponsor. At that time, the asset should be included on the district's capital assets list following the guidelines in the **Property Control section**.

_____ SCHOOL DISTRICT

STUDENT ACTIVITIES REPORT OF CASH RECEIPTS, DISBURSEMENTS, TRANSFERS, AND CASH BALANCES

MONTH ENDED _____

Club/Organization	Cash balance (Prior month)	Cash receipts	Disbursements	Transfers In	Transfers Out	Cash balance (Current month)
Club X	$	$	$	$	$	
Club X						
Club X						
Total	$	$	$	$	$	

School District No. _____

STUDENT CLUB MEETING MINUTES

School: _____

_____ Date: _____

(Name of club) (Club account number)

Meeting called to order at: _____ by: _____

(Time)

1. **Roll call (attach attendee roster)**

2. **Agenda (attach meeting agenda)**
   Motion to approve agenda: _____ Seconded by: _____
   Discussion: _____
   Vote count in favor/opposed/abstain: _____

3. **Prior meeting minutes**
   Motion to approve prior meeting minutes: _____ Seconded by: _____
   Discussion: _____
   Vote count in favor/opposed/abstain: _____

4. **Treasurer's report** Cash balance: _____
   Motion to approve treasurer's report: _____ Seconded by: _____
   Discussion: _____
   Vote count in favor/opposed/abstain: _____

5. **Old business discussions** _____

6. **Individual motions for new business:**
   Agenda item _____ Cost: _____
   Motion made by: _____ Seconded by: _____
   Motion: _____
   Vote count in favor/opposed/abstain: _____

7. **Meeting adjourned** _____
   Motion to adjourn: _____ Seconded by: _____
   Time adjourned _____

Club officer signature _____
Club sponsor signature _____

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	2
PROCEDURES	3
Food Service Management Companies	3
Charge Sales	4
Sample Forms	
LOG OF CHARGE SALES	5

INTRODUCTION

A school district governing board may operate school meal programs pursuant to Arizona Revised Statutes (A.R.S.) §§15-1151 through 15-1158. School meal programs serve meals on a nonprofit basis to children in attendance, including programs under which federal assistance is received. Districts may also participate in child nutrition programs operated on a nonprofit basis and administered by the Arizona Department of Education's (ADE) Health and Nutrition Services Division.

Districts may employ personnel, purchase equipment and food, and incur other necessary expenses for meal programs. The Food Service Fund is used to account for monies raised by operating meal programs, including gifts or donations, proceeds of sales of school meals and snacks, or contributions made available by the federal government. While monies obtained by school district levy may be used to operate the school meal program, levy of State, county, or local school district tax revenues must not be expended for food. A.R.S. §15-1154

Districts should establish internal control over recording, processing, summarizing, and reporting food service financial data in accordance with the State and federal child nutrition program guidelines and regulations. A food service manager should establish internal controls over the food service programs that are adequate to:

- Ensure the district has appropriate oversight over the Food Service Fund and school meal programs.
- Ensure food service monies and inventories are adequately safeguarded from fraud, theft, waste, loss, and misuse.
- Maintain accurate and complete records of food service financial activity and food served to meet reporting requirements.

This section is not all inclusive of child nutrition program food service requirements but provides an overview of specific food service internal control requirements that are not already addressed in other USFR sections. In addition to this section and **ADE Health and Nutrition Services guidance**, districts should adhere to the following:

- Governing board responsibilities for establishing bank account(s) in the **Governing Board and Management Procedures section**.
- Conflict-of-interest disclosure and remediation requirements in the **Conflict of Interest section**.
- Cash collection, depositing, and change fund procedures in the **Revenues section**.
- Procurement procedures in the **Procurement section**.
- Expenditure processing in the **Expenditures section**.
- Credit card procedures in the **Credit Cards section** if used for food service items.
- Food Service Fund clearing and revolving bank account and refunding unused meals procedures in the **Bank Accounts section**.

- Supplies inventory controls in the **Supplies Inventory section**, including commodities.
- Equipment controls in the **Property Control section**.
- Accounting records as prescribed in the **Accounting Records section**.
- Budgeting and financial reporting as prescribed in the **Budgeting** and **Financial Reporting sections**.
- General and application controls for automated systems in the **Information Technology section**.
- Retention schedules provided in the **Records Management section**.

POLICIES

District governing boards should adopt written policies over food service programs. The district's policies should, at a minimum, address the following, as applicable, to comply with statutory requirements and establish effective internal controls over food service:

1. The governing board may authorize participation in school meal programs and enter into an agreement with ADE for child nutrition programs. A.R.S. §§15-1152 through 15-1154 and 7 Code of Federal Regulations (CFR) §210 et seq.
2. The governing board may accept gifts for use in connection with a school meal program. A.R.S. §15-1152
3. The governing board may enter into agreements to prepare meals for persons 60 years of age or older and their spouses, or any group of such persons, by utilizing the systems and procedures already developed for use in the school meal programs of such school district. Such agreements must not:
   - Involve expenditures of any federal or State school meal monies or other school monies, or the use of any school meal commodities or school district personnel, equipment, or facilities unless the agreement includes a provision requiring full reimbursement for such expenditure.
   - Provide for payment to the school district of any amount in excess of the estimated cost of food, personnel, equipment, facilities, and other necessary expenditures involved in the performance of the agreement.
   - Permit the program to interfere, in any way, with the use of school meal facilities for school purposes. A.R.S. §15-1158
4. The governing board may enter agreements to receive donated food, such as United States Department of Agriculture commodities. 7 CFR §§210.9 and 250
5. The governing board should establish prices for paid meals in accordance with 7 CFR §210.14.
6. The governing board may contract with a food service management company to manage its food service operations following proper procurement procedures. 7 CFR §210.16

7. The district must follow the State Board of Education's regulations for keeping accounts and records, and making reports. A.R.S. §15-1155
8. The governing board should determine if and when students may be allowed to charge sales for the school meal program in accordance with United States Department of Agriculture (USDA) Food and Nutrition Administration Guidelines. Districts should not allow adults to charge food purchases.

PROCEDURES

Districts should establish written procedures for food service programs and the management of the Food Service Fund to enforce and uphold the governing board's adopted policies and distribute them to all employees with related responsibilities. The district's procedures should, at a minimum, address the following to establish effective internal controls over food service:

1. District and school management should participate in developing policies, procedures, and regulations for the supervision and administration of school meal programs, including procedures documenting and tracking food services sales and meals served to meet State and federal reporting requirements, and safeguarding and monitoring meal program inventories.
2. The district should appoint a food service manager to oversee operations of the school meal program.
3. The district should monitor contracted food service-management companies at least monthly, if used, to ensure services are appropriately billed and contract terms are complied with.
4. If district policy allows students to charge food purchases, the district should develop procedures to track charge sales and initiate billings.

Food Service Management Companies

A district may contract with a food service-management company to manage all or part of the district's food service operations. Although the district may delegate day-to-day food service operations to the food service-management company, the district remains fully responsible for ensuring compliance with all State and federal reporting and recordkeeping requirements. The scope of the food service-management company responsibilities must be clearly defined and included in both the procurement documentation and the awarded contract. The contract should allow the district access to relevant food service program records and provide for routine contract monitoring. To ensure food service-management contractors appropriately bill for services and comply with contract terms, the district should develop procedures to monthly verify charges are valid and accurate, such as district-performed meal counts and reviewing supporting documentation for hourly charges, food expenditures, or other relevant information.

Charge Sales

Charge sales occur when a transaction is made before payment is received. Districts should not allow adults to charge food purchases. In addition, districts should discourage charge sales to students because subsequent collection procedures are required.

However, if school procedures allow students to charge food purchases, the school should maintain a log or system to track charge sales (see sample **Log of Charge Sales**). For each charge, the following should be recorded:

- Student's name.
- Date of the charge.
- Meal type.
- Meal card number, if applicable.
- Amount charged.
- Balance due for that student.

Food service or cafeteria managers or other district employees should be responsible for collecting charges. Students should be billed at least every 2 weeks for outstanding balances. Total cash received as charge payments should be recorded on a Revenue Collection Report (see the **Revenues section**).

If the district determines outstanding balances to be uncollectible, it should decrease sales revenue and the related receivable by the uncollectible amount unless a donation is used to pay the charges. If a donation is used to pay the charges, the district should ensure that the accounting records result in only 1 revenue and 1 expenditure, which may require an adjusting journal entry.

_____SCHOOL DISTRICT NO. __

CAFETERIA _____

LOG OF CHARGE SALES

Student name	Date issued/ paid	Full-price meal*	Reduced-price meal*	Meal card number	Amount charged	Amount paid**	Balance due	Student initials	Cashier initials
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		
					$	$	$		
						$	$		
						$	$		

* Indicate meal type by placing an “x” in the appropriate column

** Total amount paid for the date should be recorded on the **Revenue Collection Report**

Districts should refer to the guidance issued by ADE for State and federal financial assistance. Districts must follow the guidance available at **https://gme.azed.gov**, as part of the Uniform System of Financial Records for Arizona School Districts. If you need assistance, please contact ADE Grants Management via the HelpDesk service system at **https://helpdeskexternal.azed.gov**.

CONTENTS

Topic	Page
INTRODUCTION	1
UNAUDITED ANNUAL FINANCIAL REPORT	1
AUDITED FINANCIAL STATEMENTS	1
Independent Auditors' Report	2
Management's Discussion and Analysis (MD&A)	2
Government-wide Financial Statements	3
Fund Financial Statements	3
Fiduciary Funds Statements	4
Notes to the Financial Statements	4
Other Required Supplementary Information	4

INTRODUCTION

Financial reporting serves as an important link between a district's accounting system and potential users of its financial information. Districts must prepare an annual financial report, as required by Arizona Revised Statutes (A.R.S.) §15-904, and most districts are required by A.R.S. §15-914 to prepare financial statements, in accordance with U.S. Generally Accepted Accounting Principles (GAAP) for audit by an independent accounting firm. Unaudited annual financial reports and audited financial statements provide districts' financial information such as resources received, program and functional spending, and amounts held in reserve for future years' spending to legislative and oversight bodies, investors and creditors, and the public.

UNAUDITED ANNUAL FINANCIAL REPORT

All districts are required by A.R.S. §15-904 to prepare and publish an annual financial report (AFR) by October 15. The AFR is not audited.

The school district **AFR packet** includes the school district AFR, school-level AFR reporting forms based on district size, and other required reporting forms. The Arizona Auditor General's Office and the Arizona Department of Education (ADE) revise the AFR packet annually for legislative and other changes. Detailed instructions for each form's preparation, submission, and publication are included in the AFR packet.

The AFR includes beginning and ending fund balances, revenues, expenditures (expenses), and other financing sources and uses including fund transfers. Additionally, the AFR makes budget-to-actual comparisons for the fiscal year, compares current year expenditure data to prior-year amounts, includes school-level revenue and spending information, and provides information on a district's fund balance reserve policies and ending fund balance planned uses.

District governing boards must review and certify the completed AFR prior to submitting the forms to the ADE.

AUDITED FINANCIAL STATEMENTS

Most districts are required by A.R.S. §15-914 to prepare annual or biennial financial statements, in accordance with U.S. GAAP, for audit by an independent accounting firm (see the **Audit Requirements section** for specific requirements). Districts required to have an audit may prepare basic financial statements or an annual comprehensive financial report (ACFR) that includes basic financial statements and additional individual fund statements and supplementary and statistical information that provides more information to stakeholders.

Districts' financial statements provide useful information for understanding their financial structure, strategy and performance, and include specific financial information presented in accordance with GAAP. Governmental GAAP are standards of accounting and financial reporting established by the Governmental Accounting Standards Board for all U.S. governments.

FINANCIAL REPORTING

Financial statements should:

- Disclose a district's total resources, obligations, and net resources; the effects of transactions; events and circumstances that change resources; and interests in those resources.
- Present information on how a district obtains and spends cash or other liquid resources, and other factors that may affect the district's liquidity.
- Include financial information on organizations and activities that, although legally separate, are still in substance part of the district's reporting entity.
- Include adequate disclosures, explanations, and interpretations to help users understand the accounting principles employed in preparing them.
- Be understandable, reliable, relevant, timely, consistent, and comparable among districts.

Districts may use the Arizona Auditor General's school district **reporting guidelines**, issued annually, when preparing financial statements. These guidelines follow the Governmental Accounting Standards Board's authoritative literature and include illustrative examples of financial statements, disclosures, and schedules. The examples are neither authoritative nor required to be followed, but they provide sample presentations and disclosures to help ensure consistent and complete reporting. Whether or not districts use these guidelines, district management must take responsibility for preparing and fairly presenting the financial statements, related note disclosures, and all accompanying information, and other required disclosures following applicable authoritative guidance.

Districts may also refer to the Arizona Auditor General's **financial report user guide—State and local governments** to better understand the components of audited financial statements. This guide describes key financial information contained within government financial statements and can help district decision makers identify and understand the important and useful information presented in their district's statements. The following paragraphs provide a less detailed description of financial statement key components.

Independent Auditors' Report

The independent auditors' report is prepared by the auditor and contains the auditors' opinion on whether the information in the financial statements is presented in accordance with GAAP. The auditor's opinion is not a conclusion on the status of the district's financial condition.

Management's Discussion and Analysis (MD&A)

MD&A is prepared by district management and provides an analysis of the district's financial activities for the fiscal year, including explanations of why the district's financial position improved or deteriorated during the year, based on currently known facts, decisions, or conditions.

Government-wide Financial Statements

The government-wide financial statements are prepared by district management and present a consolidated view of the district's financial activities for the fiscal year in 2 financial statements: the statement of net position and the statement of activities.

Statement of Net Position—Provides an overall picture of the district's year-end assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position balances.

Statement of Activities—Provides the year's revenue and expense activities and change in net position, which is the difference between revenue and expense activities.

Fund Financial Statements

The fund financial statements are prepared by district management and present a more detailed view of the district's financial activities for the fiscal year in 5 financial statements:

- Two financial statements are for the governmental funds' activities primarily supported by taxes and grant monies—the balance sheet and the statement of revenues, expenditures, and changes in fund balances.
- Three financial statements are for the proprietary funds' activities primarily supported through user fees and charges—the statement of net position; the statement of revenues, expenses, and changes in fund net position; and the statement of cash flows. See the **Fund Accounting section** for definitions and accounting treatment of specific funds or fund categories.

The focus of these statements is on major funds. A fund is determined to be a major fund based on specific size criteria prescribed by GAAP. The General Fund is always considered a major fund. Any other governmental or enterprise fund may be reported as a major fund if district management believes that the fund is particularly important to financial statement users. Major fund reporting requirements do not apply to internal service funds. Funds that are not considered to be major funds are grouped together for financial statement reporting. Unlike the government-wide financial statements, the governmental fund financial statements show each major fund's finances on an annual basis, meaning they do not include long-term items such as the value of capital assets or how much is owed for long-term debt. Because of this, the governmental fund financial statements focus only on the current financial condition of the government, and they should not be used to evaluate its long-term financial condition.

Balance Sheet—Provides each of the major funds' year-end financial position and the combined year-end financial position of all nonmajor funds.

Statement of Revenues, Expenditures, and Changes in Fund Balances—Provides revenue and expenditure activity showing whether each of the major funds' and the combined nonmajor funds' financial positions improved or deteriorated during the year.

Statement of Net Position—Provides the assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for proprietary funds.

Statement of Revenues, Expenses, and Changes in Fund Net Position—Provides operating activities, nonoperating activities, and the changes in net position for proprietary funds.

Statement of Cash Flows—Provides the sources and uses of cash for proprietary funds generally shown in cash flow categories of operating activities, noncapital financing activities, capital financing activities, and investing activities.

Fiduciary Funds Statements

Fiduciary fund statements are prepared by district management and present a more detailed view of the district's fiduciary activities for the fiscal year in 2 financial statements: the statement of fiduciary net position and the statement of changes in fiduciary net position. Districts should include all fiduciary funds, as well as component units that are fiduciary in nature.

Major fund reporting requirements do not apply to the fiduciary funds. Districts should present a separate column for each fund type in the statement, as applicable.

Statement of Fiduciary Net Position—Provides information about assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position for each fiduciary fund type.

Statement of Changes in Fiduciary Net Position—Provides information about the additions to, deductions from, and net increase or decrease for the year in net position for each fiduciary fund type.

Notes to the Financial Statements

Notes to the financial statements are prepared by district management to provide essential explanatory information about the financial statements for a user's understanding.

Other Required Supplementary Information

In addition to the MD&A described above, district management prepares other required supplementary information to the basic financial statements, including budgetary comparison schedules for the general fund and for each major special revenue fund that has a legally adopted annual budget and a schedule of the district's pension and other postemployment benefits contributions and liabilities.

CONTENTS

Topic	Page
INTRODUCTION	1
AUDIT THRESHOLDS	1
AUDIT PREPARATION	2
Obtaining Audit Services	2
Audit Contract	2
District Management Role Before the Audit	3
AUDIT PROCESS	4
REPORT REVIEW, SUBMISSION, AND REQUIRED ACTIONS	6
District Management Review and Submission	6
Governing Board Required Action	6
District Management Corrective Action Plan	6
Auditor General Oversight	7
PERFORMANCE AUDITS	8

Refer to USFR Compliance Questionnaire

Refer to Related School District FAQ's

INTRODUCTION

Arizona Revised Statutes (A.R.S.) §15-914 requires most school districts to have an annual or biennial financial statement audit and requires districts subject to the requirements of the 2 Code of Federal Regulations, Part 200, Subpart F (Uniform Guidance), to have an annual single audit of its financial statements and compliance with federal grant reporting requirements. Statute requires these audits be performed by an independent certified public accountant and requires districts' auditors to complete the USFR Compliance Questionnaire as part of any statutorily required financial audit.

The type of financial audit a school district is required to obtain is based on spending thresholds prescribed by statute, and the Uniform Guidance and districts must follow certain requirements for obtaining financial audit services. Additionally, this section describes the roles of both district management and the audit firm throughout the audit process and the final audit reports issued. There are also review, submission, and required action steps district management and the governing board must complete at an audit's conclusion. The Arizona Auditor General (Auditor General) uses financial audit reports and the completed USFR Compliance Questionnaires to determine each district's compliance with the USFR.

Further, districts may be randomly selected for a performance audit in accordance with A.R.S. §§41-1279.03 and 15-393.01. Districts may also be subject to compliance audits conducted by other State and federal agencies, including ADE, the Arizona State Retirement System, the Arizona Department of Revenue, and the Internal Revenue Service, which are not described in this section.

AUDIT THRESHOLDS

Districts that spend $1 million ($750,000 prior to fiscal year 2026) or more in federal grants in a fiscal year are subject to a single audit in accordance with the Uniform Guidance and must contract for an audit of their annual financial statements and compliance with federal grant program requirements.

Districts not required to have a single audit must have an annual or biennial financial statement audit in accordance with A.R.S. §15-914 as described below.

1. A district that adopts a $2 million or more Maintenance and Operation (M&O) Fund expenditure budget must contract for an annual financial statement audit. However, a district that is required to have an annual audit based on its M&O Fund budget may choose to contract for a biennial audit (described in #2 below) instead if the previous year's audit did not contain any significant negative findings. Statute defines "significant negative findings" as findings that result in the issuance of a noncompliance letter from the Auditor General. If the Auditor General issues a noncompliance letter based on a biennial audit allowed under this provision, the district must convert back to an annual audit and cannot choose to receive a biennial audit again until it receives 2 annual audits that do not contain any significant negative findings.

2. A district that adopts an M&O Fund expenditure budget of less than $2 million but more than $700,000 must contract for a biennial financial statement audit, which is an audit of 2 fiscal years performed after the second year with the USFR Compliance Questionnaire prepared only for the second year of the 2-year audit period. Districts required to have a biennial audit may choose to contract for an annual audit at any time.

An independent certified public accountant must perform these audits in accordance with U.S. generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and the Uniform Guidance, as applicable.

Districts not required to have either a single audit or financial statement audit are subject to procedural reviews performed at the Auditor General's discretion. A procedural review is substantially less in scope than an audit. Districts subject to procedural review generally do not prepare financial statements. Therefore, an audit opinion is not expressed on the district's internal controls or financial statements. The objective of a procedural review is to evaluate the district's internal controls and determine whether the district complies with the USFR. If the Auditor General determines a district has not complied with the USFR, the 90-day process described on **page 7** is followed.

AUDIT PREPARATION

Obtaining Audit Services

A.R.S. §15-914(E) requires districts contracting for audit services to follow the School District Procurement Rules or the Guidelines for Written Quotes, depending on the expected audit services costs for the audit period (see the **Procurement section**). It is recommended that a district use a request for proposals (RFP) to ensure that all requirements are disclosed even when requesting written quotes. The Auditor General issues a sample RFP and a sample audit contract that can be revised, as appropriate, for specific district requirements. The sample RFP and sample audit contract are not required to be used but are provided to aid districts in contracting for financial and compliance audits. The nature of an audit requires that certain essential information about the district and the necessary elements of the audit requirements be communicated to interested audit firms to enable them to develop a proposed work plan and reasonably estimate the audit's cost.

Audit Contract

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require the Auditor General to approve school district financial and compliance audit contracts. After the governing board approves the selected audit firm, the district or its selected audit firm must submit the proposed audit contract to the Auditor General for approval. The Auditor General will notify the district or the audit firm of any contract deficiencies requiring correction, prior to the approval or disapproval of the audit contract. The audit contract becomes effective after Auditor General approval and both the school district and

audit firm have signed the agreement, as approved by the Auditor General. Audit work must not begin before the contract is effective.

Multiyear contracts

A.R.S. §15-213(L) allows districts to enter into multiyear audit services contracts. Multiyear contracts must specify the number of years the audit services will be provided or that it is a 1-year audit contract with the option to renew for a specified number of additional years and include costs for each contracted audit year. Districts with option-to-renew audit contracts, must notify the audit firm in writing that the district will be renewing the audit contract each year that the renewal option is exercised. The written renewal notification should include the type of audit to be performed, the year(s) being renewed, and the price(s) as stated in the audit firm's original contract and must provide a copy of the renewal notification to the Auditor General before any audit work begins. Districts with approved multiyear contracts, without an option-to-renew provision, do not need to notify the auditor or the Auditor General annually that the contract is continuing each year.

Contract amendments

Any changes to the audit contract as it was originally approved by the Auditor General must be made through a written contract amendment and submitted to the Auditor General for approval. For contract amendments related to changes in the scope, character, or complexity of the audit work performed, the Auditor General will consider whether the amendment is allowable in the terms of the original contract, was not foreseeable at the time the district and audit firm entered into the contract, and the amendment terms are agreed to by the district. Proposed contract amendments must state the specific reason(s) for the amendment and explain any change in the associated cost. Like the original contract, the Auditor General will notify the district or the audit firm of any contract amendment deficiencies requiring correction prior to the approval or disapproval of the audit contract amendment. The audit contract amendment becomes effective after Auditor General approval and both the school district and audit firm have signed the amendment, as approved by the Auditor General. Any audit work that is added pursuant to an amendment must not begin before the contract amendment is approved and effective.

District Management Role Before the Audit

District management is responsible for maintaining effective internal controls, including adequate separation of key responsibilities in each area, that provides reasonable assurance of reliable financial reporting, effective and efficient operations, and compliance with applicable laws and regulations. Districts may choose to complete a copy of the USFR Compliance Questionnaire informally as a self-audit tool to help the district review whether its internal controls are adequate for substantial compliance with the USFR. Districts having an audit must issue financial statements and, for a single audit, a schedule of expenditures of federal awards. If these documents are prepared by the audit firm from information provided by the district, district management remains ultimately responsible for them. See the **Financial Reporting section** for more information on the

requirements for financial statements prepared in accordance with U.S. Generally Accepted Accounting Principles. Districts may use the Auditor General's school district **reporting guidelines**, issued annually, when preparing financial statements.

Audit liaison

An important step in preparing for an audit is to assign an audit liaison between the district and the audit firm. The liaison may be the business manager, administrator, or a designated employee responsible for the financial statements and accounting records. The audit firm will usually request documents, supporting schedules, and analyses required for the audit from the liaison.

The liaison should review the list and begin preaudit preparation before the end of the fiscal year under audit and may need to notify appropriate individuals of the requirements for year-end reports and taking inventory counts of supplies and capital assets. The liaison should provide appropriate forms and instructions to employees to complete these tasks. The liaison should also ensure that files of contracts, agreements, leases, insurance policies, judgments, and other relevant documents are reviewed for completeness and accessibility before June 30 of the audit period. The liaison should also inform the audit firm of any changes in accounting principles made since the previous fiscal year.

AUDIT PROCESS

After the Auditor General approves the audit contract, the audit begins with a planning phase. This may include an engagement letter, preliminary meetings, risk assessments, and developing an audit plan with the contracted audit firm. After the planning phase, the district and audit firm begin the fieldwork phase. The audit firm's fieldwork must obtain sufficient, appropriate evidence in order to form an opinion on the financial statements and prepare reports on internal control and compliance, including the USFR Compliance Questionnaire. The audit firm obtains this evidence by inspecting transactions and related documents on a test basis, reviewing district policies and procedures, asking questions of district personnel, observing internal controls, and confirming various transactions, account balances, and other information with district employees and outside entities such as banks, vendors, or the county school superintendent and treasurer.

During the audit process, district management has a significant role and is responsible for providing supporting documents, detailed schedules, accounting records, and other information the audit firm requires to complete the audit in a timely manner. The accuracy and completeness of such information and of the financial reports are an integral part of district management's responsibilities.

The final phase of the audit process is audit report issuance. The audit firm's responsibility is to express an opinion on the financial statements based on the audit and to report on internal control and compliance. Audit firms performing a single audit must also report on the schedule of expenditures of federal awards. The audit firm is also required to complete a USFR Compliance Questionnaire. Listed below are brief descriptions of the various reports the auditor may issue. The

AUDIT REQUIREMENTS

Auditor General provides the **financial report user guide—State and local governments** and **internal control and compliance report user guide** that provides more detailed information on the auditors' reports, including illustrative examples.

1. **Independent Auditor's Report**—Contains the auditors' opinion on whether the information in the financial statements is presented in accordance with Generally Accepted Accounting Principles. The auditor's opinion is not a conclusion on the status of the district's financial condition.
2. **Internal control and compliance report over the annual financial report**—Contains information about whether auditors found significant problems with the government's internal control procedures over its annual financial statement report preparation, whether auditors found noncompliance with certain laws and regulations that could affect the government's financial statement amounts, and if necessary, the government's planned actions to correct any identified internal control deficiencies or noncompliance.
3. **Internal control and compliance report over federal programs**—Contains information about whether auditors found significant problems with the government's internal control procedures over administering and complying with certain federal laws and regulations, an audit opinion on whether the government complied with federal laws and regulations and properly prepared a schedule of its federal programs, and if necessary, the government's planned actions to correct any identified internal control weaknesses or noncompliance.
4. **Auditors' opinion on the Schedule of Expenditures of Federal Awards**—The audit firm is required to report on the schedule of expenditures of federal awards to provide an opinion on whether the financial information presented on the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.
5. **Schedule of Findings and Questioned Costs**—The schedule of findings and questioned costs is prepared by auditors and presents the overall results from the government's financial statement and federal compliance audits during the year. It has 3 important sections: the summary of auditors' results, the financial statement findings, and the federal award findings and questioned costs.
6. **USFR Compliance Questionnaire**—For all audits required by A.R.S. §15-914, the audit firm must complete and submit the USFR Compliance Questionnaire to the Auditor General. A "Yes" response indicates that the audit firm has determined that the district complied with the USFR requirement for that question based on auditor obtained evidence. A "No" response indicates the district did not comply with the USFR requirement for that question and will include a description of the deficiency the auditor noted. The USFR Compliance Questionnaire assists the Auditor General in determining whether a district has substantially complied with the USFR.

REPORT REVIEW, SUBMISSION, AND REQUIRED ACTIONS

District Management Review and Submission

District management should review drafts of the audit reports, including the completed USFR Compliance Questionnaire, and resolve any errors or disputes in information included before the audit firm issues the reports. District management should also sign a representation letter to the audit firm dated as of the independent auditor's report date, to confirm that the district provided all information the auditors needed, the financial statements are complete and accurate to the best of their knowledge, the district followed laws and regulations, and the district disclosed any known issues, such as fraud, litigation and claims, and subsequent events. The completed audit reporting package, the USFR Compliance Questionnaire, and any management letters issued must be submitted to the district, Auditor General, ADE, the federal audit clearinghouse, and the district's county school superintendent's office, as specified in the audit contract within 9 months after fiscal year-end (March 31), and become a matter of public record.

Governing Board Required Action

A.R.S. §15-914(H) requires school district governing boards to publicly accept all audits and the USFR Compliance Questionnaire by roll call vote. District management should provide board members access to audit reports and the USFR Compliance Questionnaire as part of presenting the district's audit for board acceptance. Board members may find the information included in the **Financial Reporting section**, and the Auditor General **financial report user guide—State and local governments** and **internal control and compliance report user guide** helpful in understanding the important and useful information presented in district financial reports.

District Management Corrective Action Plan

District management should take the actions listed below to address any findings noted in the audit, including the USFR Compliance Questionnaire deficiencies.

1. Review the audit report findings and USFR Compliance Questionnaire deficiencies.
2. Identify the USFR or statutory requirements that were not met that resulted in the deficiencies.
3. Discuss corrective actions with the district's auditor or the Auditor General if there are questions on how to correct a deficiency.
4. Develop and implement a corrective action plan that includes:
    - Reviewing and educating employees on USFR requirements or ADE guidelines related to the deficiency.

- Specific corrective actions that will be taken to correct the deficiency and assigned individuals to complete those actions.
- Specific followup procedures that will be used to verify corrections have been implemented.
- A timeline for correction and management verification to be completed.

Auditor General Oversight

Audit firm working paper reviews

A.R.S. §§15-914(E) and 41-1279.21(A)(4) require the Auditor General to ensure that completed audits are conducted in accordance with U.S. generally accepted auditing standards; Government Auditing Standards, issued by the Comptroller General of the United States; and the minimum audit standards the Auditor General prescribes. Accordingly, the Auditor General reviews the audit reports and selected audit documentation of audit firms performing school district audits to determine the quality of technical performance and adherence to the cited standards and the Auditor General prescribed requirements for completing the USFR Compliance Questionnaire.

If the Auditor General determines that an audit firm has not met the standards and requirements listed in the preceding paragraph, the Auditor General may disapprove audit contracts or suspend or debar the audit firm from contracting with school districts for audit services, pursuant to Arizona Administrative Code R4-44-101 et seq. The Auditor General will notify districts if an audit firm has been suspended or debarred.

USFR Noncompliance and 90-Day Process

A.R.S. §15-271 requires the Auditor General to inform any district failing to comply with the USFR of its noncompliance and provide the District 90 days to correct its deficiencies. The Auditor General reviews all audit reports, USFR Compliance Questionnaires, and management letters submitted by the audit firms to determine whether districts have established and maintained effective internal control policies and procedures that comply with the USFR at a satisfactory level. After identifying a district is noncompliant with the USFR, the Auditor General sends the district a noncompliance letter, a list of the district's most significant deficiencies, and a corrective action plan (CAP) template that must be completed and submitted to the Auditor General 90 days after the noncompliance letter date.

During the 90-day statutory period, the Auditor General will schedule periodic meetings with district management to discuss the district's implemented and planned corrective actions for each of its deficiencies. The district may also need to contact ADE for assistance with deficiencies related to student attendance reporting, transportation, and other funding-related items.

At the end of the 90-day period, the Auditor General will review the district's completed CAP and submitted supporting documentation to determine if the district has made enough progress in correcting its deficiencies to warrant an on-site review of the district's internal controls (status

review). A status review will cover the deficiencies communicated to management as well as any other internal control deficiencies noted at the time of the review. The Auditor General will notify the district in writing of their corrective action plan review or status review results. If the district has not complied with the USFR at a satisfactory level based on either its CAP or its status review results, the Auditor General will notify ADE and the Arizona State Board of Education (State Board) that the district has not corrected its deficiencies and request the State Board to take appropriate action as prescribed in A.R.S. §15-272, which includes the State Board directing the Superintendent of Public Instruction to withhold up to 10% of the district's State monies. The Auditor General also provides the State Board with a list of the district's most significant deficiencies at that time.

Districts that do not submit their required financial audit reports and USFR Compliance Questionnaire by the March 31 deadline are also in noncompliance with the USFR. The Auditor General will notify a district in writing of its noncompliance with USFR audit reporting requirements. If the district does not submit its audit reports and USFR Compliance Questionnaire within 90 days of the noncompliance letter, the Auditor General will notify the State Board of the district's noncompliance and request the State Board to take appropriate action as prescribed by A.R.S. §15-272, which includes the same penalties described above for internal control noncompliance.

PERFORMANCE AUDITS

A.R.S. §41-1279.03 requires the Auditor General to conduct performance audits of school districts. School district performance audits focus on assessing a district's efficiency and effectiveness in 4 operational areas—administration, plant operations and maintenance, food service, and student transportation—and its compliance with certain State requirements. Additionally, A.R.S. §15-393.01 requires the Auditor General to conduct performance audits of career and technical education districts (CTEDs). CTED performance audits determine whether a CTED is meeting its statutory purpose to prepare students for high-need occupations and spending State monies appropriately. Statute requires that school districts and CTEDs be randomly selected for performance audits and these audits provide the Legislature, district decision-makers, and the public with information on the use of public monies and identify best practices or make recommendations to the district to improve operations.

Districts that receive a performance audit must provide the Auditor General with a written response as to whether the district agrees or disagrees with the findings and whether it will implement, implement in a different manner, or not implement the recommendations. The district must also submit to the Auditor General a written status report on its implementation of the audit recommendations at the Auditor General's request within the 2 years following the audit's issuance. The Auditor General reviews and reports the district's progress toward implementing the audit recommendations during this 2-year period and may continue doing so after the 2 years for recommendations that the District has not implemented.

INFORMATION TECHNOLOGY

Refer to related School District FAQs

CONTENTS

Topic	Page
INTRODUCTION	1
INTERNAL CONTROL	1
General Controls	1
Application Controls	6
DOCUMENTATION	8
INTERNET AND E-MAIL	9
WIRELESS NETWORKS	10

Refer to USFR Compliance Questionnaire

INTRODUCTION

The information technology (IT) internal control guidelines presented in this section are provided to help school district officials and IT personnel develop and implement effective internal control for IT-based systems. These controls are intended to help provide reasonable assurance that the resulting data is accurate and reliable.

IT controls are a specialized application of basic accounting internal control. The basic concepts are expressed in terms of control objectives and, therefore, are independent of the data processing method used, whether manual or computer-based. IT controls are divided into two basic categories: (1) general controls, which are the policies and procedures that apply to all IT activities and help ensure their proper operation; and (2) application controls, which relate to specific applications, such as the accounting, student attendance, or payroll systems.

Given the wide range of computer systems and applications, each district should tailor IT internal control to effectively and efficiently address its specific environment and risks. For example, Internet accessibility and wireless networks present more opportunities for unauthorized users to gain access to the district's network, systems, and data. Documented and enforced policies and procedures regarding IT systems and specific risks, such as Internet use and wireless access, can protect the district from unintended exposure and consequences. Additionally, the district's IT policies and procedures should address prevention and detection of technology-related issues and should include guidelines on its response to specific incidents.

As used throughout this section, "user" refers to employees, students, and others who use the IT systems to carry out their assigned or authorized activities. "IT personnel" refers to employees who manage, design, program, or operate the IT system(s).

INTERNAL CONTROL

General Controls

General controls refer to controls embedded in IT processes and services and include areas such as systems development, change management, security, and computer operations. General controls are intended to ensure that IT resources are directed toward and support business requirements, business application programs are properly managed and maintained, data and systems are safeguarded, and computer operations provide for continuous and effective service.[1] There are four general control areas that management should consider:

1. Systems development helps ensure that computer systems and applications:
    - are acquired or designed in accordance with business needs,
    - address security and control requirements,

[1] As used in this section, "business" refers to the activity with which an organization is principally and seriously concerned. The context relates to the entity's broader operations, and the intent is that IT processes and services must be focused on the needs and requirements of the entire enterprise rather than on IT itself.

- are tested to ensure that they operate as designed, and
- are properly maintained throughout their life.

2. Change management:
   - addresses needed changes and prevents unauthorized changes to information system resources (for example, software programs and hardware configurations), and
   - provides reasonable assurance that systems are configured and operating securely and as intended.
3. Security provides a framework and continuing cycle of activity for:
   - managing risk,
   - developing and updating security policies, procedures, and training,
   - assigning responsibilities for security requirements, and
   - monitoring the adequacy of security-related controls.

   One particularly important security area that deserves management's special attention relates to access controls, which are designed to limit or detect access to computer resources (data, programs, equipment, and facilities) and protect them against unauthorized use, modification, loss, and disclosure.
4. Computer operations help ensure that critical operations:
   - continue effectively and without disruption, or
   - are promptly resumed when unexpected events occur.

Systems Development Controls—Districts should design controls for the acquisition and/or development of, and changes to, their computer systems and applications. IT systems should be developed or modified based on business needs defined by management and users. Policies and procedures for systems development should include:

1. A process to help ensure that systems are designed, or acquired, and implemented in accordance with business and security needs and requirements, and are maintained properly throughout their useful life.[2] Formal policies and procedures over the Systems Development Life Cycle (SDLC) should be considered. The SDLC begins as projects are initially planned and ends when they are finally retired.
2. Requirements that users and IT personnel test the system or changes for consistency with design specifications and user requirements. Testing is usually performed as critical phases of the system are finished and again after the entire system has been completed but before it is put into actual use.

---

[2] Business requirements include those that may be both internally and externally mandated. For example, there are requirements that certain information be submitted to the Arizona Department of Education's Student Accountability Information System (SAIS). Related requirements, such as the length and makeup of SAIS IDs, need to be considered both in developing and maintaining local systems.

3. Requirements that IT personnel obtain formal approval from business users before placing a system or system modification into operation.
4. Requirements that IT personnel develop and retain system documentation, including documentation of changes from original design specifications.
5. Requirements that user documentation and training be provided to users of the system based upon their job role and function and the way they will be expected to interact with the system.

Change Management Controls—Districts should design controls to ensure that key components of their network and systems are kept up-to-date and secure. They can do this by:

1. Developing a plan, strategy, and guidelines to ensure that their computer and network infrastructure (i.e., computers, servers, routers, switches, etc.) are properly maintained and that changes to key equipment and settings are consistent with the district's policies and standards.
2. Establish procedures for monitoring available updates to IT systems and for testing and applying updates to ensure that systems run effectively and securely.

Security Controls—Districts should establish a framework and continuous cycle of assessing risk, develop and implement effective security procedures, design and provide security awareness training to staff and users of their computer systems, and monitor and report on the overall effectiveness of their security policies and procedures. In order to do this, districts should:

1. Assign responsibility for security of their IT systems and data, and require periodic reporting on security-related activities to management.
2. Develop and maintain up-to-date security-related policies and procedures, including those which address access to their IT systems and data, and user security awareness training.
3. Periodically assess risks to their IT systems and data, and develop policies and procedures to prioritize and address identified risks.
4. Manage information system security activities, such as installing security patches, anti-virus, and other anti-malware software and updates.
5. Develop policies and procedures that define requirements and actions needed when security incidents occur.
6. Monitor and periodically audit system activity and adherence to security-related policies, procedures, and guidelines.

Access Controls—Special attention should be paid to security-related controls over access to IT systems and data. Physical and logical access controls help ensure that only those individuals authorized by management to access and use IT systems and data are able to do so.

Physical access controls include those that restrict the entry and exit of personnel (and often equipment and media) from a physical area, such as an office building, suite, data center, or room containing critical computer-related equipment, such as network servers, routers, and switches. Controls over physical access include barriers that isolate areas and employ screening measures to restrict access. Some examples include:

1. Combination entry pads and card-key door locks.
2. Surveillance monitors.
3. Intrusion detectors and alarms.
4. Hardware locking mechanisms.

Logical access controls are protection mechanisms that limit users' access to information and restrict the types of access to only what is necessary for them to carry out their assigned duties. Logical access controls are often built into computer and/or network operating systems, or may be part of the "logic" of applications programs or major utilities, such as database management systems. They may also be implemented in add-on security packages that are installed onto computer systems. Some examples of logical security control techniques include the use of:

1. Individual user accounts and passwords, with defined password requirements such as length, characteristics (i.e., use of upper/lower case letters, numbers, symbols, etc.), frequency with which they must be reset, prohibitions against reuse, termination of access rights when a user no longer has a need for access to data, etc.
2. Different levels of access capabilities, such as read/write privileges, based on data classification and/or ownership.
3. Data encryption technologies.
4. Properly configured firewalls and intrusion detection/prevention systems.
5. Up-to-date anti-virus, anti-spyware, anti-spam, and other anti-malware programs, and signatures.
6. System access and exception reports and logs.

Access to program files and production data, including general ledger accounting structure, electronic signatures, vendor file information, and employee and student file data, should be controlled and limited where possible. Program documentation contains information regarding how the programs work, their data file structures, control mechanisms and criteria, and other sensitive information that could be manipulated or used to access or modify systems and data. Therefore, access to program documentation should be restricted to only those employees authorized to maintain computer programs.

Access controls should include maintaining an audit trail to enable tracing of electronic transactions from inception to final disposition. If appropriate electronic audit trails are not available, manual processes should be used to track and document changes made.

Computer Operations Controls—Districts should establish policies and procedures to ensure that IT systems are operating effectively and kept up-to-date, and that systems and data are protected from unintended loss or destruction. To do this, districts should:

1. Collect and analyze key system information, such as server processor and disk space utilization, error/incident logs, and capacity management reports, in order to be able to plan for system upgrades or replacements.
2. Establish system replacement guidelines and procedures, including requirements for the proper destruction of information contained on systems that are retired or taken out of service.

3. Maintain and regularly update network infrastructure and configuration information.

4. Implement environmental controls. The computer facility should be protected against safety hazards and environmental damage. Storage media, such as computer hard drives, disks, tapes, portable external storage devices such as flash drives, etc., should be protected from exposure to moisture, extreme temperatures, fire, powerful magnetic fields, and other environmental risks. Safeguards against fire might include smoke detectors and fire suppression equipment.

5. Implement backup controls. Backup controls help ensure that current copies of critical system and data files are maintained and easily retrievable. Files, programs, and documentation should be physically safeguarded by maintaining backup copies and regularly storing backups in an off-site storage facility. The frequency and timing of backup procedures or archival policies should be determined by the amount of effort to recreate the current system in the event of losses and legal requirements. Ordinarily, data files may be backed up daily or more frequently; software programs and the related documentation may be backed up when new program changes are made. Districts should develop and document policies and procedures for data recovery, such as the prioritization of programs and files necessary to resume normal operations.

6. Implement disaster recovery controls. Disaster recovery controls help ensure the continuity of operations should an event cause damage or loss to critical computer resources or facilities. Districts should develop and routinely update a documented disaster recovery plan, test the plan periodically, and ensure adequate insurance coverage to provide resources necessary for continuity of operations in the event of a disaster affecting IT systems and data. A disaster recovery plan should include:

    - Business impact analysis, including a risk assessment of critical business functions, risk mitigation, and disaster scenarios.
    - Business recovery strategies, including recovery tasks and procedures.
    - Computer equipment and software inventories.
    - Vital records required for resumption and recovery efforts.
    - List of supplies and equipment required for resumption and recovery efforts.
    - Crisis management plan.
    - Escalation procedures used to specify exactly how to respond to emergencies and how to tell when a “problem” has become a potential “disaster.” Disaster recovery plans should state the steps to follow for escalating unresolved problems to disaster status.
    - Notification procedures for recovery teams.
    - Contact lists of recovery team members, management personnel, vendors, and others as may be appropriate.
    - Plan maintenance and training requirements to ensure that the plan is kept up-to-date and all parties understand their roles and responsibilities during the plan’s execution.

Application Controls

Application controls are manual or programmed activities intended to ensure the completeness and accuracy of records and the validity of entries made into business computer systems. They are embedded in business process applications and include checks over completeness, accuracy, validity, authorization, and separation of duties.

1. Completeness checks help ensure all records were processed from initiation to completion (i.e., provide reasonable assurance that all transactions that occurred are input into the system), accepted for processing, processed in accordance with system requirements, and properly included in output. The most commonly encountered controls for completeness include the use of record counts and control totals, computer sequence checking, computer matching of transaction data with data in a master or suspense file, and checking of reports for transaction data.
2. Accuracy checks provide reasonable assurance that transactions are properly recorded with correct information, data elements are processed correctly by applications, reliable results are achieved, transactions detected with errors are controlled to ensure that they are corrected and reentered in a timely manner, and output is reviewed and control information is reconciled to determine whether errors occurred during processing.
3. Validity checks help ensure that a program operates on clean, correct, and useful data by checking for correctness, meaningfulness, and security of data that is input into the system. The simplest data validation verifies that the characters provided come from a valid set. For example, telephone numbers should include the digits and possibly the dash, and left and right parentheses. A more sophisticated data validation routine would check to see that the user had entered a valid country code (i.e., that the number of digits entered matched the convention for the country or area specified).
4. Authorization checks help ensure that only approved users have access to the application system and that data is properly authorized before it is entered or accepted into the system.
5. Separation of duties helps ensure that checks are in place to prevent fraud and errors by separating the tasks and associated privileges for a specific business process among multiple users. These controls include policies, procedures, and an organizational structure established so that one individual cannot control key aspects of computer-related operations and thereby conduct unauthorized actions or gain unauthorized access to assets or records.

The responsibility for application controls is a joint responsibility between the business and IT personnel. Business personnel are responsible for properly defining functional and control requirements and use of automated services. IT personnel are responsible for automating and implementing business functional and control requirements, and establishing controls to maintain the integrity of applications controls.

Application controls are commonly categorized into the following three phases of a processing cycle:

1. **Input**—Data is authorized, converted to an automated form, and entered into the application in an accurate, complete, and timely manner.

   Controls in this phase would include data validation and edit checks that enforce system requirements for data entering the application. For example, they would check for valid account codes, missing data elements, data reasonableness, proper formats, mathematical accuracy, or batch totals.

Districts should establish review and control policies and procedures for the prevention, detection, and correction of data input errors. Additionally, to minimize the risk of fraud and identity theft, error logs should not contain sensitive or confidential information, such as social security numbers or bank account numbers. Further, an employee who does not input data should review and approve error corrections and ensure that an adequate audit trail exists to document and record them.

2. **Processing**—Data is properly processed by the computer, and files are updated correctly. These controls would include requirements that users reconcile relevant input control totals with data processed by the application.

   To the extent possible, application processing should be standardized, and the manual and automated procedures used should be documented. Audit trails and output reports should be monitored on a regular basis to help ensure that transactions are processed as intended. Users should reconcile relevant input control totals with data processed by the application. For example, the ledger in an accounting system could provide total debits and credits to be calculated for the input transactions to ensure balancing.

   Further, the application should have controls to ensure that the correct file is processed, file processing errors are detected, and operator errors are identified. Errors may indicate control weaknesses or control processes that are being bypassed. Where possible, limit and reasonableness checks should be incorporated within programs to help detect clerical or processing errors. Districts should also implement sufficient controls to protect the confidentiality of data during processing.

3. **Output**—Files and reports generated by the application are created properly and accurately reflect the results of processing, and reports are controlled and distributed to the authorized users.

   Output controls provide assurance that data has been processed accurately and completely, and that the output is distributed correctly and in a timely manner. Output can be in hard copy form, electronic files that become input to other systems, or as information available for online viewing.

   A designated employee independent of processing responsibilities should prepare reconciliations, or automated controls may be incorporated into the application to ensure that correct processing has occurred. When feasible, an employee should compare processed information to original source documents.

   Output controls should ensure that the application's results are delivered only to the appropriate end users, output is restricted from unauthorized access, and record retention and backup schedules are established. In particular, districts should ensure that content and availability of output and data are consistent with end users' needs, data sensitivity, confidentiality requirements, and applicable laws and regulations. Further, critical documents and reports, such as blank check stock and reports containing confidential employee or student information, should be properly secured from unauthorized access and use.

Separation of Duties—As with non-IT internal control, districts should establish the structure in which operations function and determine their relationships to each other. Often, separation of duties is achieved by splitting responsibilities between two or more organizational groups. Dividing duties this way diminishes the likelihood that errors and inappropriate acts will go undetected because the activities of one group or individual will serve as a check on the activities of the other. Separation of functions, duties,

and responsibilities is necessary so that no individual performs incompatible duties that may permit errors or fraud to occur and remain undetected.[3]

The extent to which duties are separated depends on the size of the organization and the risk associated with its activities. A large organization will have more flexibility in separating key duties than a small organization that must depend on only a few individuals to perform its operations. These smaller organizations may rely more extensively on supervisory review to control activities. Similarly, activities that involve extremely large dollar transactions, or are otherwise inherently risky, should be divided among several individuals and be subject to relatively extensive supervisory review.[4]

Additionally, to prevent the unauthorized or fraudulent manipulation of applications or data, districts should separate key responsibilities between IT personnel and users. To accomplish this, districts should designate specific users to initiate and authorize transactions, and prohibit IT personnel from initiating or authorizing transactions. In addition, users should not have system-level access to modify data or programs. When independence is not possible, such as when users also perform IT functions related to the system(s), management must periodically review transactions to help compensate for inadequate separation of duties.

Further, among the IT personnel, programming responsibilities should be separated from computer operation responsibilities. Unauthorized modifications to programs or files are more likely if an employee has the ability to perform both programming and operating functions. If separation of these duties is not feasible, districts should ensure that a supervisor reviews system logs, balancing reports, and other relevant indicators regularly.

DOCUMENTATION

Districts should establish and document policies and procedures for its IT operations. The amount of documentation necessary depends upon the circumstances and complexity of the district's IT systems. However, at a minimum, standards and procedures related to systems development, change management, security, and computer operations, as described above, should be developed and regularly maintained.

Documentation of application systems and the controls associated with them is also very important. System, program, operations, and user documentation should be prepared and maintained in a standardized, organized manner.

In designing and implementing IT systems, organized and thorough documentation can:

1. Provide an understanding of the system's objectives, concepts, processes, and output.
2. Provide a resource for systems analysts and programmers responsible for maintaining and revising existing systems.
3. Enable supervisory review of work performed on the system.

---

[3] Based on the Federal Information System Controls Audit Manual (FISCAM), GAO-09-232G, February, 2009. Chapter 3, section 3.4.

[4] Ibid.

4. Serve as a reference for existing staff and as a basis for training new personnel.
5. Communicate system information to systems analysts, programmers, operators, and auditors.

System documentation should include a brief narrative description of the system's business purpose and provide both an overview of the system and an explanation of the integration, if any, with other systems. Information on system testing performed, user involvement, and sign-off should be maintained. Input, processing, output, file, security, and related controls for each system should be described. In addition, information regarding significant system changes, including their purpose, scope, authorization, and effective dates, should be preserved.

Program documentation should include a description of the program's purpose; a flowchart, decision table, or detailed logic narrative; a list of built-in control features such as error-detection routines; a detailed description of file formats and record layouts; and the program code itself. Operating instructions, input and output formats, users' request for any changes, change test results, and user's approval of the revised program, if applicable, should also be documented. The interrelationship between that program and other programs that make up the system should also be described.

Operations documentation should include setup instructions and on-going operational requirements, recovery and restart procedures in the event of hardware or software malfunctions, and error-correction procedures. The error correction procedures should include documentation of the problem, cause-analysis, identification of the individual assigned to correct it, and timely review by a supervisor to verify that the problem was resolved. Furthermore, this documentation should also include a list of control procedures and the personnel (positions) responsible for performing them.

User documentation should outline user instructions and provide information about how to use the application, including:

1. Input and output descriptions, including data entry screens and data display screens.
2. Applicable cut-off procedures for submitting data.
3. Balancing and reconciliation procedures.
4. Basic and common functionality.
5. Advanced functionality.
6. Instruction on using the Help functionality.
7. Explanation of error messages and appropriate responses.
8. Problem resolution procedures and/or technical support resources.

INTERNET AND E-MAIL

The Internet provides a mechanism for systems and users to connect to other systems and users outside of the organization's own network. While this provides opportunities, it also introduces potential threats. Therefore, the district's networks and the systems that reside on them need to be properly secured to ensure that its IT resources and data are not accessible and used by unauthorized individuals, or in unauthorized or inappropriate ways. Two important steps districts can take to increase security and ensure

proper use of electronic resources and information are to develop Internet and e-mail use and security policies, and to implement security and monitoring measures to ensure computer users' compliance with the policies. These policies should address:

1. Who is allowed to use the Internet and e-mail.
2. When they are allowed to use it.
3. What constitutes acceptable use of the Internet and e-mail.
4. What constitutes unacceptable use of the Internet and e-mail.
5. Monitoring procedures for Internet account activity.
6. Virus, spam, and other types of malware protection.
7. Requirements and guidelines over the use and configuration of firewalls and other network perimeter security devices, such as intrusion prevention systems, intrusion detection systems, network access control devices, etc.
8. Procedures for reporting and responding to suspected security and policy violations.

A written Internet and e-mail policy raises users' level of security awareness and serves as guidance for technical decisions affecting Internet and e-mail activity. Further, the policy may help strengthen the district's position in the event of legal prosecution of a security violation. This policy need not be technical; however, it should include a summary of the district's Internet and e-mail security concerns. Further, users should be required to acknowledge and document receipt of the policy and their intention to follow the policy before being granted access to the Internet and e-mail. Districts should also institute periodic security awareness training to remind users of their requirements and responsibilities.

WIRELESS NETWORKS

Wireless networks provide the ability to access network resources, such as files, printers, the Internet, e-mail, and data, without the use of the traditional cables and wires generally required to connect to a district or school site's network infrastructure. In general, wireless networks should be given special attention and need to be adequately controlled due to the risks inherent in using this type of technology. Specifically:

1. All of the vulnerabilities that exist in a wired network also apply to wireless networks (e.g., unauthorized access, viruses, denial-of-service attacks, etc.).
2. Unauthorized wireless connections can be set up without anyone's knowledge by either authorized (i.e. staff, students, or contractors) or unauthorized individuals and may affect network security and performance.
3. Wireless access points, particularly those set up on an ad hoc basis, are often implemented without attention to security and authentication issues, such as the use of default passwords, and may bypass existing network and firewall protections.
4. Sensitive information that is transmitted wirelessly between devices may be easily intercepted and used if not encrypted.

Reducing the risks and security issues related to wireless networks may require significant effort, resources, and vigilance. Actions needed to maintain a secure wireless network include:

1. Performing a risk assessment of the different threats and vulnerabilities introduced by wireless technology and regularly monitoring the network for unauthorized wireless access points.
2. Developing or expanding and disseminating the security policy to address the proper use and security requirements over wireless access networks.
3. Enabling encryption and authentication security features to mitigate unauthorized access and wireless eavesdropping.
4. Training users on how to properly use wireless access technologies to minimize risks to the district or school site's network.

APPENDIX A SUMMARY OF INFORMATION SOURCES

CONTENTS

Topic	Page
ARIZONA REVISED STATUTES	1
TITLE 11 — COUNTIES	1
TITLE 15 — EDUCATION	1
TITLE 16 — ELECTIONS AND ELECTORS	3
TITLE 23 — LABOR	4
TITLE 35 — PUBLIC FINANCES	4
TITLE 38 — PUBLIC OFFICERS AND EMPLOYEES	4
TITLE 39 — PUBLIC RECORDS, PRINTING AND NOTICES	5
TITLE 41 — STATE GOVERNMENT	5
TITLE 42 — TAXATION	5
TITLE 43 — TAXATION OF INCOME	5
CONSTITUTION OF ARIZONA	6
ARIZONA ADMINISTRATIVE CODE	6
OTHER SOURCES	7

APPENDIX A SUMMARY OF INFORMATION SOURCES

ARIZONA REVISED STATUTES

Arizona Revised Statutes (A.R.S.) pertinent to school district accounting and financial reporting responsibilities are listed below.

TITLE 11 — COUNTIES

Chapter 3: County Officers

Article 4 — Treasurer

§11-494 Receipts for monies received; violation; classification

§11-497 Disbursement of forest reserve funds

§11-501 Monthly and annual reports to the board

§11-504 Correction of errors

Chapter 4: Fiscal Provisions

Article 1 — County Charges, Specific Funds, and Warrants for Current Expenses

§11-604.01 Revolving line of credit; uses; procedures; bids; application of revenues; exception

§11-605 Warrants drawn on fund

Article 2 — Claims and Warrants

§11-632 Issuance of duplicate warrant

§11-634 Payment of warrants

§11-635 Warrants unpaid for lack of funds; interest

Chapter 7: Intergovernmental Operations

Article 3 — Joint Exercise of Powers

§11-951 et seq

TITLE 15 — EDUCATION

(Management should be aware of all Title 15 provisions)

Chapter 1: General Provisions

Article 1 — General Provisions

§15-101 Definitions

Article 2 — Employee Annuity and Deferred Compensation Plans

§15-121 Permitting school employees to participate in federal annuity program and deferred compensation plans; prohibition against use of public funds; penalty

Article 8 — Charter Schools

§15-181 et seq

Chapter 2: State Governance of Schools

Article 1 — State Board of Education

§15-203 Powers and duties

§15-207 Apportionment and expenditure of federal grants for educational purposes

§15-208 Application by school district for apportionment of federal monies; hearing

§15-209 Disbursement of apportioned federal funds

§15-210 Unlawful expenditure of federal monies

§15-213 Procurement practices of school districts; adoption of rules; simplified construction procurement program; report; recovery of damages by contractor for delay; civil action; definition

§15-213.01 Procurement practices; guaranteed energy cost savings contracts; definitions

Article 2 — Department of Education

§15-234 Appropriations for adult education; eligibility; definition

§15-236 Cost study of special education programs; program and fiscal audits

Article 3 — Superintendent of Public Instruction

§15-251 Powers and duties

§15-253 Legal opinions relating to school matters

§15-255 Annual report; contents

Article 4 — Uniform System of Financial Records

§15-271 Duties of auditor general for uniform financial records system; annual report

§15-272 Duties of department of education for uniform system of financial records

Chapter 3: Local Governance of Schools

Article 1 — County School Superintendent

§15-302 Powers and duties

§15-303 Apportionment of funds

§15-304 Warrants; limitations; definition

§15-306 Register of warrants

TITLE 15 —EDUCATION (Cont'd)

Article 2 — Organizational Powers of School District Governing Boards

§15-321 Organization; election of officers of the board; meetings; execution of warrants; exemption

§15-323 Governing board member; voting eligibility; purchases from board member

Article 3 — Powers and Duties of School District Governing Boards

§15-341 General powers and duties; immunity; delegation

§15-342 Discretionary powers

§15-343 Employment of professional help

Article 4 — Establishment of Special Services

§15-364 Agreements and expenditure of public monies for recreational facilities on school properties; use of proceeds of bond issues

§15-365 Service programs operated through the office of a county school superinten-dent; reports; definitions

Article 5 — Provisions for Insurance Coverage

§15-381 et seq

Chapter 4: School Elections

Article 1 — General Provisions

§15-406 Cost of elections

Article 4 — School District Budget Override Elections

§15-481 et seq

Article 5 — Bond Elections

§15-491 et seq

Chapter 5: School Employees

Article 1 — General Provisions

§15-501 Definitions

§15-502 Employment of school district personnel; payment of wages of discharged employee

§15-503 Superintendents, principals, head teachers, and school psychologists; term of employment; evaluation; contract delivery; nonretention notice

§15-510 Authorization of leaves of absence; application; preservation of rights

§15-511 Use of school district resources or employees to influence elections; prohibition

§15-512 Noncertificated personnel; finger-printing personnel; affidavit

Article 3 — Certification and Employment of Teachers

§15-534 Fingerprinting; affidavit

§15-536 Offer of contract to certificated teacher who has not been employed more than three consecutive school years; acceptance; notice to teacher of intention not to reemploy

§15-538.01 Offer of contract to certificated teacher employed more than three consecutive school years

§15-544 Limitations on reduction of salaries or personnel

Chapter 7: Instruction

Article 1 — Curriculum

§15-715 Special academic assistance to pupils in kindergarten programs and grades one through three

Article 2 — Courses of Study and Textbooks

§15-723 Furnishing of free textbooks, subject matter materials and supplementary books

§15-724 Purchase of high school textbooks, subject matter materials and supplementary books; budget; rental

§15-729 Use of monies received for lost or damaged textbooks, subject matter materials, supplementary books or instructional computer software

Article 3.1 — Bilingual Programs and English as a Second Language Programs

§15-755 Reporting procedures; self-assessment; noncompliance

Article 4 — Special Education for Exceptional Children

§15-761 Definitions

§15-764 Powers of the school district governing board or county school superintendent

§15-769 Appropriation and apportionment; approval of program

§15-770 Gifted pupils; scope and sequence; annual financial report

§15-772 Additional assistance for gifted programs

TITLE 15 — EDUCATION (Concl'd)

Chapter 8: School Attendance

Article 1 — School Year and Attendance Requirements

§15-801 School year; school month; holidays

Article 2 — Admission Requirements

§15-824 Admission of pupils of other school districts; homeless children; tuition charges; definitions

§15-825 Certificate of educational convenience; issuance; effect on enrollment records

§15-825.01 Certificates of educational convenience; pupils attending out-of-state schools

§15-827 Presentation of withdrawal form

Article 4 — Part-Time Schools and Year-Round School Year Operation

§15-855 School or school district operation on a year-round school year basis; separate budget

Chapter 9: School District Budgeting and Financial Assistance

Article 1 — General Provisions for School District Budgets

§15-901 et seq

Article 1.1 — Career Ladder and Other Performance Incentive Programs

§15-918 et seq

Article 2 — Pupil Transportation

§15-921 et seq

Article 3 — School District Revenue Limitation for Maintenance and Operation

§15-941 et seq

Article 4 — Provisions for Capital Outlay and Capital Levy

§15-961 et seq

Article 5 — State and Local Assistance to School Districts and Accommodation Schools

§15-971 et seq

Article 6 — County Finance Responsibilities for School Districts

§15-991 et seq

Article 7 — Bond Issues and Bonded Indebtedness

§15-1021 et seq

Article 8 — State Board for School Capital Facilities

§15-1051 et seq

Article 9 — Assistance to Build Classrooms

§15-1061 et seq

Article 10 — School District Revenue Bonds

§15-1071 et seq

Chapter 10: School District Funds and Related Operations

Article 1 — Revolving Funds; School Plant, Insurance Proceeds, Unemployment Compensation, Civic Center School and Permanent Teacherage Funds

§15-1101 et seq

Article 2 — Student Activities and Auxiliary Operations Funds

§15-1121 et seq

Article 3 — Community School Program Fund

§15-1141 et seq

Article 4 — School Lunch Program Fund

§15-1151 et seq

Article 8 — Governing Board Bank Accounts

§15-1221 et seq

Article 9 — Vocational and Technical Education Projects Fund

§15-1231 Vocational and technical education projects fund

Article 10 — Academic Contests Fund

§15-1241 Academic contests fund; state board of education powers and duties; distribution of monies

TITLE 16 — ELECTIONS AND ELECTORS

Chapter 2: Election Dates

Article 1 — Primary Election

§16-204 Declaration of statewide concern; consolidated election dates

§16-205 Election dates; notice; administration

TITLE 23 — LABOR

Chapter 2: Employment Practices and Working Conditions

Article 6.1 — Equal Wages

§23-340 et seq

Article 7 — Payment of Wages

§23-350 Definitions

§23-351 Designation of paydays for employees; payment; exceptions; violation; classification

§23-352 Withholding of wages

§23-353 Payment of wages of discharged employee; violation; classification

Article 9 — Wages and Hours of Public Employees

§23-391 Overtime pay; work week

Chapter 4: Employment Security

Article 5 — Contributions

§23-726 et seq

Chapter 6: Workers' Compensation

Article 1 — Scope of Workers' Compensation

§23-902 et seq

Article 4 — Providing for Compensation

§23-961 et seq

TITLE 35 — PUBLIC FINANCES

Chapter 2: Handling Public Funds

Article 2.1 — Money Management

§35-323 Investment of public monies; bids; eligible depositories; surety bonds and collateral; restrictions

§35-328 Investment of sinking funds

Article 3 — Payment of Agency Accounts

§35-341 Definitions

§35-342 Payments of agency accounts; delinquency; interest

Chapter 3: Public Indebtedness

Article 2 — State Indebtedness Bonds

§35-429 Issuance of state bonds for county, municipal or school district indebtedness

Article 3 — County and Other Municipal Indebtedness

§35-451 et seq

Article 3.1 — Tax Anticipation Notes

§35-465 et seq

Article 4 — Refunding County and Other Municipal Indebtedness

§35-471 et seq

Article 5 — Registration and Payment of Bonds

§35-491 Registration of bonds; payment of principal and interest; paying agent; security for deposits; record date; definition

Article 6 — Recording State, County and Municipal Bonds

§35-502 Reports to department of revenue; omission or refusal to comply; classification

§35-503 Calculation of debt limits

Article 7 — Federal Income Tax Considerations

§35-511 et seq

TITLE 38 — PUBLIC OFFICERS AND EMPLOYEES

Chapter 2: Qualification and Tenure

Article 4 — Oath of Office

§38-231 Officers and employees required to take loyalty oath; form; classification

§38-233 Filing oaths of record

Chapter 3: Conduct of Office

Article 3.1 — Public Meetings and Proceedings

§38-431 et seq

Article 8 — Conflict of Interest of Officers and Employees

§38-501 et seq

Article 9 — Disclosure of Information by Public Employees

§38-531 et seq

TITLE 38 — PUBLIC OFFICERS AND EMPLOYEES (Concl'd)

Chapter 4: Compensation and Liability Insurance

Article 1 — Salaries

§38-608 Compensation or time off for legal holidays

§38-610 Leave of absence for military training; definition

Article 2 — Reimbursement for Expenses

§38-623 Means of travel; rates

§38-624 Lodging and per diem subsistence allowance; items covered by allowance payment; amount predetermined by department of administration

Chapter 5: Social Security and Retirement

Article 1 — Social Security for Public Officers and Employees

§38-701 et seq

Article 2 — Arizona State Retirement System

§38-711 et seq

Article 2.1 — Long-Term Disability Program

§38-797 et seq

TITLE 39 — PUBLIC RECORDS, PRINTING AND NOTICES

Chapter 1: Public Records

Article 1 — Requirements for Material Used

§39-101 et seq

Article 2 — Searches and Copies

§39-121 et seq

Article 4 — False Instruments and Records

39-161 Presentment of false instrument for filing; classification

TITLE 41 — STATE GOVERNMENT

Chapter 7: Legislature

Article 10.2 — Post Audit of Counties, Community College Districts and School Districts

§41-1279.21 Powers and duties of auditor general relating to counties, school districts and community colleges

§41-1279.22 Duty of local officers to make county, community college district and school district records available; failure to comply; classification; prosecution

Chapter 8: Agencies of the Legislative Department

Article 3 — Department of Library, Archives and Public Records

§41-1346 State and local public records management; definition; violation; classification

§41-1347 Preservation of public records

§41-1348 Production and reproduction of records by agencies of the state and political subdivisions; admissibility; violation; classification

§41-1350 Definition of records

§41-1351 Determination of value; disposition

TITLE 42 — TAXATION

Chapter 1: Administration

Article 4 — Classifications of Property

§42-162 Classification of property for taxation

Chapter 2: Real Property and Secured Personal Property Taxes

Article 1 — General Provisions

§42-201 Definitions

Article 4 — Budget and Levy

§42-304 Levy and assessment of tax levy

§42-306 Property tax oversight commission; membership; compensation; duties

§42-307 Hearing and appeals of commission findings; adjustments to levy

TITLE 43 — TAXATION OF INCOME

Chapter 4: Withholding

Article 1 — Withholding by Employer

§43-401 et seq

Article 2: Rights and Duties of Employers

§43-412 et seq

APPENDIX A SUMMARY OF INFORMATION SOURCES

CONSTITUTION OF ARIZONA

Sections of the Constitution of Arizona pertinent to school district accounting and financial reporting responsibilities are listed below.

Article IX: Public Debt, Revenue, and Taxation

§7 Gift or loan of credit; subsidies; stock ownership; joint ownership

§8 Local debt limits; assent of taxpayers

§8.1 Unified school district debt limit

§18 Residential ad valorem tax limits; limit on increase in values

§21 Expenditure limitation; school districts and community college districts; adjustments; reporting

Article XI: Education

§1 Public school system; establishment and maintenance; elements; education of the deaf, dumb, and blind

§2 Conduct and supervision of school system

§6 Admission of students of both sexes to state educational institutions; tuition; common school system

§10 Source of revenue for maintenance of state educational institutions

Article XVIII: Labor

§1 Eight-hour day

§2 Child labor

§8 Workmen's compensation law

ARIZONA ADMINISTRATIVE CODE

Administrative rules and regulations pertinent to school district accounting and financial reporting responsibilities are listed below.

TITLE 2— ADMINISTRATION

Chapter 8: State Retirement System Board

Article 1 — Social Security Division

§R2-8-101et seq

Article 2 — Retirement System

§R2-8-122 Remittance of contributions

TITLE 4— COMMERCE, PROFESSIONS AND OCCUPATIONS

Chapter 44: Auditor General

Article 1 — Suspension and Debarment of Contractors Providing School District Audit Services; Disapproval of Contracts

§R4-44-101 et seq

TITLE 7— EDUCATION

Chapter 2: State Board of Education

Article 8 — Compliance

§R7-2-801 et seq

Article 9 — School District Budget and Accounting

§R7-2-901 et seq

Article 10 — School District Procurement Rules

§R7-2-1001 et seq

Article 11 — School District Procurement Continued

§R7-2-1101 et seq

OTHER SOURCES

Other sources pertinent to school district accounting and financial reporting responsibilities are listed below.

Audit and Accounting Guide, *Audit Sampling*, American Institute of Certified Public Accountants

Audit and Accounting Guide, *The Auditor's Study and Evaluation of Internal Control in EDP Systems*, American Institute of Certified Public Accountants

Audit and Accounting Guide, *Audits of State and Local Governmental Units*, American Institute of Certified Public Accountants

Audit and Accounting Guide, *Not-For-Profit Organizations*, American Institute of Certified Public Accountants

Auditing Procedure Study, *Auditing in Common Computer Environments*, American Institute of Certified Public Accountants

Auditing Procedure Study, *Auditing with Computers*, American Institute of Certified Public Accountants

Audit Management Handbook, Stephen J. Gauthier, published by the Government Finance Officers Association

Catalog of Federal Domestic Assistance, Office of Management and Budget and the General Services Administration

Child Nutrition Programs Guidance Manual, Arizona Department of Education, Child Nutrition Office

Circular E—*Employer's Tax Guide*, Internal Revenue Service

Codification of Governmental Accounting and Financial Reporting Standards, Governmental Accounting Standards Board

Codification of Statements on Auditing Standards, American Institute of Certified Public Accountants

Government Auditing Standards, Comptroller General of the United States

Governmental Accounting, Auditing and Financial Reporting (1988), Government Finance Officers Association

Title 2 *U.S. Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance)

Title 2 *U.S. Code of Federal Regulations* Part 225*, Cost Principles Applicable to State, Local, and Indian Tribal Governments*

Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments (Common Rule*)*, Office of Management and Budget

Uniform Accounting Manual for Arizona County School Superintendents, Auditor General of the State of Arizona

Uniform Accounting Manual for Arizona County Treasurers, Auditor General of the State of Arizona

Uniform System of Financial Records for Arizona Charter Schools, Auditor General of the State of Arizona

Uniform System of Financial Records Memorandums, Arizona Department of Education and the Auditor General of the State of Arizona

APPENDIX B GLOSSARY

Accounting Responsibility Program—Program allowing districts that meet certain requirements to assume responsibility for various accounting and administrative functions that are otherwise performed by the county school superintendent. These include preparing warrants; verifying certification records for teachers, principals, administrators and other certified staff; and reconciling revenues and expenditures to the county treasurer's records. A.R.S. §15-914.01

Accrued Liabilities—Amounts owed but not yet due (e.g., accrued wages payable is a liability for wages earned by employees between the last payment date and fiscal year-end but that are not yet due).

Adjusting Entry—An entry made in the general journal to correct an amount previously recorded in error or to present the accounts on the modified accrual or full accrual basis. These entries are usually made at the end of the month or year after all other journal entries have been posted.

Advice of Encumbrance—A form that indicates the amount for each levy fund that must be encumbered to pay for goods or services received on or before June 30, but not paid by that date. Warrants may be drawn to pay for such goods or services for a period of up to 60 days after the close of the fiscal year. A.R.S. §15-906

Appropriation—A legal authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes, usually with specific limitations as to amount, purpose, and time.

Assessed Valuation—A valuation determined by the county on real and personal property as provided in A.R.S. §42-15010 to be used as a basis for setting the tax levy and calculating equalization assistance.

Bonded Indebtedness—That portion of debt represented by outstanding bonds.

Capital Expenditure—An expenditure intended to benefit future periods. Generally, the acquisition of or improvement to land, buildings, or equipment.

Capital Lease—An agreement that conveys the right to use land, buildings, or equipment, usually for a stated period of time, that meets one or more of the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 62. In substance, the periodic payments are similar to an installment purchase by the lessee for the rights to acquire the lessor's property in the future.

Cash-Controlled Funds—District funds other than the Maintenance and Operation (M&O), Unrestricted Capital Outlay (UCO), Adjacent Ways, and Classroom Site funds. Federal and state project funds are cash-controlled funds unless the county treasurer maintains only the minimum number of accounts as prescribed in A.R.S. §15-996.

Change Funds—Cash provided to a cashier to make change for cash transactions.

Charter School—A public school established by contract with the State Board of Education, the State Board for Charter Schools, a university under the jurisdiction of the Arizona Board of Regents, a community college district, or a group of community college districts pursuant to A.R.S. §15-181 et seq.

Clearing Account—An account used to accumulate debits or credits for the purpose of distributing them later among the accounts to which they are allocable.

Coding—A system of numbering or otherwise designating entries, invoices, vouchers, etc., for the purpose of identifying the amounts to be recorded and accounts affected.

Compensated Absences—Absences, such as vacation, sick, and personal leave for which it is expected employees will be paid.

Component Unit—Legally separate organization for which the elected officials of the primary government are financially accountable. In addition, a component unit can be another organization for which the nature and significance of its relationship with a primary government is such that its exclusion would cause the primary government's financial statements to be misleading or incomplete.

Contingent Liability—Potential obligation dependent on the outcome of one or more future events, such as accumulated unvested sick leave, a pending lawsuit, or an uncompleted contract.

Credit Memo—A notice to a purchaser that the seller has decreased an amount the purchaser owes, resulting in the reduction of a future invoice payment or a cash refund.

Cutoff Date—The date selected for separating transactions of one accounting period from those of the succeeding accounting period.

Database Management System—A system of storing interrelated data in a centralized location that can be accessed by multiple users and used in one or more applications.

Depreciation—Expiration of the service life of capital assets attributable to wear and tear, deterioration, environmental factors, inadequacy, and obsolescence. Also, the portion of the cost of a capital asset charged as an expense during a particular period. In accounting for depreciation, the cost of a capital asset, less any salvage value, is prorated over the estimated service life of such an asset, and each period is charged with a portion of such cost.

Double Entry—A system of accounting whereby an entry made to the debit side of an account or accounts requires an entry or entries for a corresponding amount to the credit side of another account or accounts. The underlying premise for this system is that every financial transaction affects at least two accounts. Double entry accounting requires the maintenance of a balance between assets and the sum of liabilities and fund balance/net position (i.e., debits must equal credits).

Encumbrances—Commitments related to unperformed contracts for goods or services evidenced by purchase orders, contracts, or salary commitments.

Equalization Assistance—The difference between the equalization base and the local contribution (the qualifying tax levy). When the difference is positive, the district is eligible to receive state and county funding for a related portion of the equalization base. When the difference is negative, the district does not receive state or county funding for its equalization base. A.R.S. §15-971

Equalization Base—Amount used in the calculation of equalization assistance as described in A.R.S. §15-971(A). The total of the district additional assistance and the lesser of the district's revenue control limit or district support level.

Federal Impact Aid—Aid received by school districts that have a lower property tax base because the property base includes federal land and for costs incurred because of "federally connected" students, such as children of armed services personnel working at a nearby military base.

Financial Audit—An audit conducted to determine whether the district's financial statements are presented fairly in conformity with generally accepted accounting principles.

Financial Statements—Presentations of financial data that show the financial position and the results of financial operations of a fund, group of funds, or an entire entity for a particular accounting period.

Fiscal Year—A 12-month period to which the annual operating budget applies and at the end of which the district determines its financial position and the results of its operations. The fiscal year for Arizona school districts is July 1 through June 30. A.R.S. §15-101

Full-Time Equivalent—A number derived by dividing the amount of actual employed time in a position by the amount of employed time required in a corresponding full-time position.

Fund Balance—The difference between total fund assets and deferred outflows of resources and total fund liabilities and deferred inflows of resources of governmental funds.

Fund Type—Any 1 of 11 categories into which all funds are classified in governmental accounting. The 11 types are general, special revenue, capital projects, debt service, permanent, enterprise, internal service, pension (and other employee benefit) trust, investment trust, private-purpose trust, and agency funds.

Generally Accepted Accounting Principles (GAAP)—Uniform minimum standards and guidelines for financial accounting and reporting. They govern the form and content of a district's financial statements. GAAP encompass the conventions, rules, and procedures necessary to define generally accepted accounting practice at a particular time. They include not only broad guidelines of general application, but also detailed practices and procedures. GAAP provide a standard by which to measure financial presentations. The primary authoritative body on the application of GAAP for districts is the Governmental Accounting Standards Board.

Generally Accepted Auditing Standards (GAAS)—Standards established by the American Institute of Certified Public Accountants (AICPA) for the conduct and reporting of financial audits.

Government Auditing Standards (GAS)—Standards issued by the Comptroller General of the United States in the publication *Government Auditing Standards* for the conduct and reporting of both financial and performance audits. GAS establish general standards applicable to both types of audits, and separate standards of fieldwork and reporting for financial and performance audits. The GAS standards of fieldwork and reporting for financial audits incorporate and build upon GAAS.

Imprest Basis—A method for handling minor disbursements whereby a fixed amount of money, such as petty cash or a revolving account, is set aside for this purpose. Disbursements are made from time to time as needed, a receipt and documentation being completed in each case. At certain intervals or when the monies are

expended below a designated amount, a report with supporting documentation is prepared and the petty cash or revolving account is replenished for the amount of disbursements by a check or warrant drawn on the appropriate fund. The total of unspent monies plus the amount of paid receipts or other charges against the account at any one time must equal the total amount of monies authorized.

Interfund Transfers—Flows of assets (such as cash or goods) from one fund to another without equivalent flows of assets in return and without a requirement for repayment. A list of authorized interfund transfers is provided beginning on page III-56.

Internal Control—A process, effected by an entity's board of directors, management and other personnel, designed to provide reasonable assurance regarding the achievement of objectives in the safeguarding of assets, reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.

Intrafund Transfers—Amounts transferred from one account to another within the same fund. Applies primarily to the Student Activities Fund.

Invoice—An itemized statement from a vendor for services or merchandise provided or sent to a district that shows quantities, prices, total charges, and applicable dates.

M&O Fund Budget Balance Carryforward—The amount of M&O Fund budget balance that can be carried forward to the next fiscal year. The carryforward may not exceed a statutorily specified percentage (currently 4 percent) of the current year's revenue control limit (RCL) and is specifically exempt from the RCL. A.R.S. §15-943.01

Notes to Financial Statements—The summary of significant accounting policies and other disclosures required for a fair presentation of the district's financial statements in conformity with GAAP. The notes to the financial statements are an integral part of the financial statements.

Operating Lease—A lease agreement that does not meet any of the criteria for capitalization set forth in GASB Statement No. 62. In substance, the periodic payments made by the lessee are simply rent for the use of the lessor's property.

Petty Cash—A sum of money set aside on an imprest basis to pay small obligations for which the issuance of a formal voucher and warrant would be too expensive and time consuming. Petty cash accounts are sometimes referred to as petty cash funds. However, they are not funds in the accounting sense. Examples of petty cash expenditures include postage, freight, express, parcel post, travel, or other minor disbursements.

Pooled Investments—Monies of various funds commingled for investment purposes. Monies may be pooled to obtain a higher yield on investments and to allow for improved investment management. Fund or district monies are individually accounted for in the pool.

Prepaid Items—The amount paid for a benefit not yet received, such as rent paid in advance and unexpired insurance premiums.

Purchase Order—A document for the authorization and control of expenditures, which should be sequentially numbered, authorizing the delivery of specified merchandise or the rendering of certain services and the related charges.

Refunding Bonds—Bonds issued to retire bonds already outstanding. The refunding bonds may be used to provide the resources for redeeming outstanding bonds, or the refunding bonds may be exchanged with the holders of the outstanding bonds. Cash received is usually invested in securities, and the securities are deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments of the refunded bonds.

Registered Warrant—A warrant that is registered by the county treasurer for future payment because of insufficient monies and that is to be paid in the order of its registration. In some cases, such warrants are registered when issued, and in others, when first presented to the county treasurer by the holders. A.R.S. §11-635

Reporting Entity—The oversight unit and all of its component units, if any, that are combined in the comprehensive annual financial report (financial report) or general purpose financial statements (GPFS).

Requisition—A written request, usually from one department or school, provided to the district purchasing agent or warehouse, requesting specified items or services.

Reversing Entry—An adjusting journal entry recorded to reverse adjusting entries previously recorded. In most instances, the entries to be reversed were originally made to establish the accounts on the modified accrual or full accrual basis for financial reporting purposes.

Revolving Account—An imprest basis account established to provide travel advances, establish petty cash or change funds, or for other minor disbursements in order to expedite district operations.

Revolving Line of Credit—A line of credit established by the county board of supervisors with a financial institution to allow the county treasurer to redeem warrants drawn on M&O, UCO, Adjacent Ways, and Classroom Site funds when monies are insufficient to pay the warrants. A.R.S. §11-604.01

Single Audit—An audit performed in accordance with the Single Audit Act Amendments and the Uniform Guidance.

State Equalization Assistance—An appropriation based on statutory formulas made by the Legislature for the support of public elementary and secondary education (commonly referred to as State Aid). Does not include payments made under A.R.S. §15-972 for additional State Aid, also referred to as the homeowners' rebate. A.R.S. §15-971

Surety Bond—A written promise to pay damages to or to indemnify the district against losses caused by the party or parties named in the document through nonperformance, misappropriation, or embezzlement.

Transportation Revenue Control Limit (TRCL)—The TRCL for the budget year is the TRCL for the current year plus any allowable portion of the increase in the transportation support level from the current year to the budget year. A.R.S. §15-946

Transportation Support Level (TSL)—The support level for pupil transportation computed as provided in A.R.S. §15-945.

Unencumbered Balance—That portion of a budget not yet expended or encumbered. The balance remaining after deducting expenditures and outstanding encumbrances from the budget.

Voucher—A document upon which the governing board authorizes the county school superintendent to draw a warrant. The accounts to be charged and payees are included on the document. Accounting Responsibility Program districts prepare their own warrants.

Warrant—A written order drawn by a county school superintendent on behalf of a governing board directing the county treasurer to pay a specified amount to a designated payee. Unlike checks, warrants are not necessarily payable on demand and may not be negotiable. Accounting Responsibility Program districts prepare their own warrants.

APPENDIX C COOPERATIVE AGREEMENTS AND REGIONAL SERVICES

CONTENTS

Topic	Page
INTRODUCTION	1
POLICIES	1
PROCEDURES	2
Establishment of an Intergovernmental Agreement (IGA) or Contract	2
Services Provided through IGA or Contract	3
County Service Agreements	3
SAMPLE FORM: INTERGOVERNMENTAL AGREEMENT	5
Instructions for Completing the IGA Form	10

APPENDIX C COOPERATIVE AGREEMENTS AND REGIONAL SERVICES

INTRODUCTION

Education Service Agencies (e.g., Regional Educational Service Agencies, Education Service Centers, Educational Cooperative Service Units, Educational Service Districts, etc.) have been formed in many states as a means of providing regional services to school districts. Through these cooperative efforts, school districts in other states have been able to save money and obtain services not otherwise available to them. Arizona school districts are authorized by Arizona Revised Statutes (A.R.S.) §15-342(13) to enter into contracts or agreements with one another or with other governing bodies for the joint exercise of any power common to the contracting parties pursuant to A.R.S. §11-952. Arizona Administrative Code (A.A.C.) R7-2-1191 specifically authorizes districts to participate in, sponsor, conduct, or administer a cooperative purchasing agreement for the procurement or disposal of materials, services, or construction.

Districts may also participate in county school superintendent (CSS) sponsored special service programs in accordance with A.R.S. §15-365. However, contracts or agreements entered into for such special service programs offered through the CSS are not subject to the following policies covering district contracting for joint or cooperative activities.

POLICIES

The following policies should be implemented to comply with statutory and administrative rule requirements and maintain effective internal control over district contracting for joint or cooperative activities that are identified in statutes as intergovernmental agreements and contracts.

1. Contracts involving two or more districts entered into pursuant to A.R.S. §11-952 must be approved by the State Board of Education (A.R.S. §11-952.A).

2. Contracts must specify the following information (A.R.S. §11-952.B).
   a. Duration
   b. Purpose
   c. Manner of financing the joint or cooperative undertaking and of establishing and maintaining a budget therefor
   d. Permissible method or methods to be employed in accomplishing the partial or complete termination of the agreement and for disposing of property upon such partial or complete termination
   e. Any other necessary and proper matters

3. Contracts must be submitted to the attorney for each party, who must determine whether the said agreement is in proper form and is within the powers and authority granted under the law (A.R.S. §11-952.D).

4. Contracts submitted to the Attorney General such as those involving a state agency must be filed with the Secretary of State. Any contract submitted to an attorney other than the Attorney General must be filed with the Secretary of State if the agreement affects more than one county or with the county recorder if only one county is affected. (A.R.S. §11-952.F and G)

5. Contracts must also state the following provisions (A.A.C. R7-2-1192).
   a. Payment for materials and services and inspection and acceptance of materials or services ordered by a district under a cooperative purchasing agreement are the exclusive obligation of such district
   b. The exercise of any rights or remedies by a district is the exclusive obligation of such district
   c. Any district may terminate without notice any cooperative purchasing agreement if another eligible procurement unit fails to comply with the terms of the contract
   d. Failure of an eligible procurement unit to secure performance from the contractor in accordance with the terms and conditions of its purchase order does not necessarily require any other district to exercise its own rights or remedies

6. A contract's duration may be extended by notifying the official with whom it is filed and the State Board of Education. Each extension may not exceed the duration of the previous contract. (A.R.S. §11-952.I)

7. Districts should enter into a cooperative state purchasing agreement to purchase materials or services from vendors at the prices and terms contained in various contracts between the State and those vendors.

PROCEDURES

Establishment of an Intergovernmental Agreement (IGA) or Contract

The governing board of a district participating in an IGA should designate one of its members to serve as the district's representative in the IGA. Officers and employees should be appointed or employed by the representatives of the IGA. Also, the district governing boards may authorize, by resolution, one representative to serve as fiscal agent for a year. The fiscal agent should establish a fund with the county treasurer to which all receipts are to be deposited. The fiscal agent has the authority to prepare vouchers on behalf of the IGA, and the responsibility to prepare monthly reports of receipts and disbursements and provide these reports to the IGA participants. All participants should recognize (i.e., record) their appropriate share of expenses in the fiscal year incurred and pay them in a timely manner.

A district entering into an agreement may appropriate funds, and may sell, lease, give, or otherwise supply for the benefit of the undertaking such services or personnel as is within its legal power to furnish. However, no district may exercise a power or engage in a business or enterprise that is not authorized by law. Likewise, an agreement does not relieve a district of obligations imposed on it by law, State Board of Education Rules, or the *Uniform System of Financial Records* (USFR).

The following are representative procedures for establishing an IGA. Specific procedures may vary depending on the participants.

Performed by	Procedure
Governing Board	1. Adopt a joint resolution of purpose and objectives with governing boards of other participating entities to form an IGA
	2. Prepare an **IGA** (Page 5) and review it with the district's attorney
	3. Specify in the IGA which district is to act as fiscal agent
	4. Ratify the IGA
	5. Submit the IGA to the Arizona Department of Education (ADE) to be forwarded to the Attorney General and State Board of Education for approval, as applicable
	6. File the IGA with the Secretary of State or county recorder, as applicable
Fiscal Agent	7. Receive the approved IGA from ADE
	8. File the IGA with the CSS and maintain copy on file

Services Provided through IGA or Contract

A substantial number of services can be provided cooperatively through contracts or agreements, including the following activities:

Accounting
Adult education
Alternative schools
Curriculum development and implementation
Custodial
Data processing
Day care
Distance learning
Driver education
Equipment repair
Food service
Grant program writing and management
Health and safety management
Insurance
Media center
Preschool education
Print shop
Purchasing
Mobile learning centers
Research and planning
Shared staff
Special education
Staff development
Teacher pools
Technology
Testing
Transportation
Unemployment compensation
Vocational education
Workers' compensation

County Service Agreements

In accordance with A.R.S. §15-365, districts may contract with their respective CSS for service programs that can be more efficiently and economically operated by the CSS as a multidistrict operation. Service programs must be available to any local district that has officially requested the programs, and costs must be shared on a user basis. Costs include central administrative costs that are incurred by the CSS in administering the programs and general service costs that directly relate to the programs.

A.R.S.§15-365 also authorizes county school superintendents to establish special small district service programs to meet the special needs of districts with student counts of less than 600. Small district service programs may serve districts in a single county or multiple counties, depending on the number of small districts within the county. Program costs are paid in part by the county's small district service program fund. Costs in excess of the amount available in that fund must be shared on a user basis by the districts in the program.

The CSS is required to submit to participating districts a program progress report and a fiscal report, including actual expenditures through March 31 and estimates for the remainder of the fiscal year. These reports are due no later than May 31 of each year and should aid the district in the budgeting process for the following year.

Agreements or contracts entered into by districts and operated through the CSS are not subject to the statutes relating to IGAs.

INTERGOVERNMENTAL AGREEMENT
(A.R.S. §11-951 and A.A.C. R7-2-1191 et seq)

ITEM	
1.	This agreement is entered into on _____, 19___, pursuant to A.R.S. §11-951 et seq between the following public agencies for the joint exercise of their powers:
2.	_____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____ _____, A _____
	[ ] Check here if additional parties are listed on a separate, attached page.
3.	RECITALS: School districts, including those which are parties to this agreement, are authorized by A.R.S. §15-341 et seq to carry on activities such as those included in this agreement. (Other recitals — cite authority of other parties to contract.)
4.	PURPOSE: The purpose of this agreement is to: _____ _____ _____ _____
	WHEREFORE, The parties agree: COVENANTS: I-XV
5.	I. The title of this agreement is: _____ _____ _____
6.	II. Duties of the parties: _____ _____ _____ _____

Page 1 of 5

ITEM	
7.	III. This agreement shall not be effective until the day it is approved by the State Board of Education. Notwithstanding that effective date, the parties are bound by the terms of this agreement beginning on _____, 19___, and this agreement shall continue to be binding upon the parties until _____, 19___.
8.	IV. The source of funds for financing this agreement is: _____ _____ _____
9.	V. The fiscal agent for this agreement shall be _____, and shall have the sole responsibility for all expenditures to be made under this agreement.
10.	VI. All funds allocated in the budget shall be deposited with the county treasurer of _____ County for disbursal upon written direction of the fiscal agent. Audits may be conducted at any time by an appropriate political subdivision or agency of the State of Arizona, independent auditors of the parties to the agreement, and by representatives of the federal government when required by applicable federal regulations.
11.	VII. Requisitions shall be submitted by _____ (Name), _____ (Title), to the fiscal agent for payment, based on the budget schedule.
	VIII. Payment for materials and services and inspection and acceptance of materials or services ordered by a party under this agreement shall be the exclusive obligation of such party.
	IX. The exercise of any rights or remedies by a party shall be the exclusive obligation of such party.
	X. Any party may terminate this agreement without notice if another party fails to comply with the terms of the agreement.
	XI. Failure of a party to secure performance from the contractor in accordance with the terms and conditions of its purchase order does not necessarily require any other party to exercise its own rights or remedies.
12.	XII. Termination of this agreement, or partial termination, may be accomplished as follows: _____ _____ _____ _____

ITEM	
13.	XIII. Property acquired solely for the purposes of this agreement shall be disposed of upon termination or completion as follows: _____ _____ _____ _____ _____ _____
14.	XIV. The signatures of the authorized agents executing this agreement on behalf of each individual party to the agreement as stated in the resolutions attached as **Exhibit "A"** are: Name _____ Signature _____ [ ] Check here if additional signatures are listed on a separate, attached page. Page 3 of 5

ITEM

15. XV. CONDITIONS PRECEDENT TO THE EXECUTION OF THIS AGREEMENT

ATTORNEY(S) OF RECORD: To determine that the agreement is in proper form and is within the power and authority granted under the laws of Arizona. (The Attorney General will sign only when a state agency is a party to the agreement.)

Signature	Title
Signature	Title
Signature	Title
Signature	Title
Signature	Title

16. *APPROVED BY THE STATE BOARD OF EDUCATION*

by

Superintendent of Public Instruction, or other Designated Official

17. *OFFICIAL DATE FILED:* The effective date of the agreement cannot precede the filing date.

A. The agreement will be filed with the Secretary of State when involving more than one county and/or a state agency.

B. The agreement will be filed with the county recorder if all the political subdivisions in the agreement are within the county jurisdiction.

C. If a school district is a party to an agreement made pursuant to A.R.S. §11-952(A), the parties to such agreement may extend the duration of the agreement by notification to the proper officer with whom the agreement is filed and the State Board of Education. Such agreement may be extended as many times as is desirable, but each extension may not exceed the duration of the previous agreement.

(Space Reserved for Filing Date)

ITEM	EXHIBIT "A"

XVI. RESOLUTION

18. The Governing Board of _____
(Legal Entity)

19. hereby authorizes the future signing by _____
(Name of Authorized Agent)
_____ of an Intergovernmental Agreement
(Title of Agent)

20. entitled _____
(Name of Project)

21. for the purpose of _____

_____

_____

22. This resolution was adopted by the Governing Board of _____
(Name of Legal Entity)

on _____, 19_____.

_____
Member of Governing Board

23. _____
Member of Governing Board

_____
AUTHORIZED SIGNATORY

_____
Member of Governing Board

_____
Member of Governing Board

_____
Member of Governing Board

Instructions for Completing the IGA Form

An intergovernmental agreement should be a precise legal document, but it can easily be inundated with trivia. Programmatic needs assessment, goals, objectives, and flow charts are normal application components that may be used as backup material if needed. Copies of the IGA should be filed with the Arizona Department of Education, the county school superintendent, the county recorder or the Secretary of State, and the parties involved.

Districts may add pages if the space provided in the pro forma form is inadequate.

Item 2 Enter the names of the parties to the agreement (e.g., Highland No. 23, an elementary school district; Devonshire No. 168, a unified school district; Tularosa No. 16, a high school district; and Phoenix, a chartered city). Although the majority of parties that use this form reflect a cooperative agreement between school districts, the agreement may involve other legal entities, such as state agencies, county agencies, or municipalities.

Item 4 Enter the specific purpose of the agreement (e.g., to provide special education services cooperatively wherein the cost-effectiveness and education feasibility are greatly enhanced).

Item 5 Enter the title of the agreement (e.g., Cochise County Special Education Consortium).

Item 6 List specifically the function of each of the parties and what they are expected to do.

Item 8 Enter the source of funding (e.g., ESEA Title I).

Item 9 The fiscal agent must be a legal entity (e.g., a participating school district).

Item 10 Enter the county of the fiscal agent.

Item 11 The project director can be anybody.

Item 12 Record specifically how a termination or partial termination of the agreement may be accomplished.

Item 13 The accountability and disposal of property should reflect considerations of state statutes and federal funding rules and regulations in any proration strategy.

Item 15 When more than one political subdivision is involved in the agreement, each attorney of record must sign (e.g., each city attorney if a city or cities are involved; each applicable county attorney if a school district or districts are involved; the Attorney General if a state agency is involved).

Item 16 After all of the attorneys of record have signed the agreement, the project officer should submit the agreement to the Arizona Department of Education for authorization.

Item 17 The recording date of the agreeement becomes the legal contractual date.

Exhibit A: Each entity party to the agreement must complete this resolution before the agreement is entered into and each resolution must be attached to the IGA as Exhibit A.

Item 19 Enter the name and title of the authorized agent assigned to execute the agreement for the district.

Item 20 Same as item 5.

Item 21 Same as item 4.

Item 22 Repeat name of legal entity and date of official board action plus the signatures of the board members (titles are not needed).

Item 23 The signature of the authorized agent executing the agreement in behalf of the district.

APPENDIX D STUDENT ATTENDANCE REPORTING

Districts should refer to the guidance issued by ADE for student enrollment and attendance accounting and reporting policies, procedures, and forms. These guidelines available at **www.azed.gov** **must** be followed as part of the *Uniform System of Financial Records for Arizona School Districts*. If you need assistance, please call ADE School Finance at (602) 542-5695 or 1-800-352-4558 or the Accounting Services Division of the Office of the Auditor General at (602) 553-0333.

APPENDIX E RECORDS MANAGEMENT

For guidance on records management, districts should refer to the **Education K-12, General Retention Schedules** issued by the Arizona State Library, Archives and Public Records, Records Management Division and the **Permanent and Historical Records document** that describe historically significant records, and storage and handling requirements. For questions or assistance, please contact the Records Management Center at (602) 926-3815 or **www.azlibrary.gov**.

Uniform System of Financial Records for Arizona School Districts (USFR) Compliance Questionnaire

Instructions
Governing board/management procedures
Budgeting
Accounting records
Cash and revenue
Supplies inventory
Property control
Expenditures
Travel
Credit cards and purchasing cards (p-card)
Procurement
Classroom Site Fund
Payroll
Financial reporting
Student attendance reporting
Information technology (IT)
Transportation support
Records management
General long-term debt

Instructions

Arizona Revised Statutes (A.R.S.) §15-271 requires the Arizona Auditor General to inform any school district failing to establish and maintain the requirements prescribed by the *Uniform System of Financial Records for Arizona School Districts* (USFR) that it has 90 days to correct the cited deficiencies. The USFR prescribes the minimum internal control policies and procedures to be used by Arizona school districts for accounting, financial reporting, budgeting, attendance reporting, and various other compliance requirements. To help the Arizona Auditor General determine whether a district has attained an acceptable degree of compliance with USFR requirements, the audit firm must complete this USFR Compliance Questionnaire (Questionnaire).

A.R.S. §§15-213(F) and 15-914(G) require districts to have a systematic review of their purchasing practices and average daily membership (ADM), respectively, performed in conjunction with their annual or biennial financial audit to determine whether the district complied with the applicable State of Arizona procurement and student attendance laws and rules. Auditor completion of the Procurement and Student attendance reporting Questionnaire sections constitutes the required systematic reviews.

Audit firms must gain an understanding of the district's internal controls and obtain and document sufficient, appropriate evidence annually to support each Questionnaire response. These instructions, the Questionnaire questions, and the required review procedures constitute the minimum audit standards for completing the Questionnaire. Required review procedures are included in the Questionnaire and in the "tooltip" next to applicable questions in the web-based auditor submission Questionnaire. The review procedures do not limit what auditors should test but instead provide guidance on certain procedures that must be completed. The Arizona Auditor General may reject Questionnaires that are not prepared in compliance with the minimum audit standards.

- Audit documentation must describe the procedures performed, items reviewed, and the results of such procedures and reviews to support the auditor's Questionnaire responses and related comments.
- Evidence may be obtained through test work, observation, examination, and client assertion. However, client assertion alone is not adequate evidence to support "Yes" responses on the Questionnaire.
- The audit firm must determine the district reviewed documents and transactions and provided sufficient evidence of approval including manual or electronic signatures or initials and date of review.
- Audit firms must consider population size in determining the number of items to test (i.e., sample, review, examine, or observe), and the items selected should be representative of the population. Therefore, testing 1 transaction, record, or item is not sufficient. The Credit cards and purchasing cards, Procurement, and Student attendance reporting Questionnaire sections prescribe minimum sample sizes for specific questions. Population and samples sizes used for test work should be entered in the fields provided next to the applicable questions throughout the Questionnaire.
- A **"Yes"** response indicates that the audit firm has determined that the district complied with the USFR for that question based on auditor obtained evidence. Several review procedures allow for auditors to determine whether the district implemented compensating controls when recommended USFR procedures could not be implemented due to limited staff size. When compensating controls are found, auditors should answer the question "Yes" and describe in the comments the compensating controls in place to meet the question's objective. However, the Arizona Auditor General makes the final determination of compliance with the USFR based on the evidence presented in the Questionnaire, audit reports, audit documentation, and any other sources of information available.

- A **"No"** response indicates the district did not comply with the USFR for that question. Audit firms must explain the district's deficiency noted for all "No" responses in the comment box below the question. **Deficiencies must be described in sufficient detail to enable the Arizona Auditor General to determine the nature and significance of the deficiency for**:

  (a) assessing compliance with the USFR,

  (b) appropriately describing the deficiency in a report, and

  (c) testing compliance during a status review.

  The description should include the number of items tested and the number of exceptions noted, dollar amount of the error, and any other relevant information that would provide context for the deficiency. For deficiencies related to processes required at regular intervals such as monthly bank reconciliations, the description should adequately describe whether the district's processes did not meet required intervals or were not completed at all.

  Each deficiency comment should specifically describe how the district did not meet the USFR requirement described in the related question.

  Cash and revenues questions apply to all the district's cash and revenue, including food service, auxiliary operations, extracurricular activities fees tax credit, and student activities receipts and bank accounts. Comments for "No" responses to these questions should indicate the type of receipt or bank account to which the deficiency applies.

- An **"N/A"** response indicates the district did not have activity related to the USFR requirements for that question. The audit firm **must** explain all "N/A" responses in the comment box below the question, unless the reason for the N/A is obvious.

The questions in the Questionnaire do not address all requirements of the USFR. If the audit firm is aware of noncompliance with a requirement of the USFR that is not addressed in the Questionnaire, including the Arizona Administrative Code (A.A.C.), Title 7, Ch. 2, Articles 10 and 11, (School District Procurement Rules) and the Arizona Department of Education's (ADE) membership and attendance guidelines, the audit firm should include the compliance findings in its reports issued in accordance with Governmental Auditing Standards and Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as applicable.

The audit firm must make the resulting audit documentation supporting the audit firm's Questionnaire responses and comments available on request for the Arizona Auditor General and the ADE's review. To facilitate this review, the audit firm should include in the audit documentation a copy of the Questionnaire with references to the audit procedures performed for each question.

Once the audit firm has completed, reviewed, and signed the Questionnaire, it must submit it electronically to the Arizona Auditor General by following the instructions at the end of the web-based auditor submission Questionnaire. Audit firms should print the file to PDF to create the Questionnaire document to distribute to the district. As required by A.R.S. §15- 914(D), the district must submit the completed Questionnaire with the audit reporting package to the district's county school superintendent's office and ADE.

Governing board/management procedures–Arizona Revised Statutes (A.R.S.) §38-503		
Objective: To determine whether the governing board and District management have established and implemented certain procedures as required by statute.		
FY26 #	Question	Review procedure
GBMP01	The District held governing board meetings in accordance with A.R.S. §§38-431 through 38-431.09, and prepared and retained written minutes and/or recordings.	Determine the District: • Included a statement on its website describing where all public notices of their meetings were posted, including the physical and electronic locations, and gave additional public notice as is reasonable and practicable for all meetings and maintained documentation to support all meeting notices were posted on its website. A.R.S. §38-431.02(A)(2) • Posted public meeting notices and agendas at least 24 hours before the meeting. A.R.S. §38-431.02(C) and (G) • Provided for the taking of written minutes or a recording of all public meetings, including executive sessions, and made the minutes or recording available for public inspection no later than 3 working days after the meeting except as otherwise specifically provided by statute. A.R.S. §§38-431.01(C),(D), and (E) and 38-431.03
GBMP02	The District annually provided governing board members and employees guidance on what constitutes a substantial interest and that the conflict-of-interest (COI) statutes apply to all District governing board members and employees as a part of their employment. A.R.S. §§38-502, 38-503 and 38-509	Determine the District maintained: • Documentation to support the guidance provided. • A list of those who received the guidance and the date it was provided.
GBMP03	The District annually obtained COI forms that allowed governing board members and employees to make known and fully disclose a COI in any contract, sale, purchase, service, or decision, and prior to accepting the forms, management reviewed the information to ensure governing board members and employees properly completed the form and sufficiently disclosed the required information. A.R.S. §§38-502 and 38-503	Review the COI forms obtained from the governing board members and employees and determine: • Management's review of COI forms was documented on each signed form or in the District's official governing board meeting minutes. • If a conflict was disclosed, the form described the nature of the interest/conflict as required by statute to allow district management to consider the conflict's potential impact on district decisions. • If no conflict was disclosed, determine the form included a signed statement of no conflict.
GBMP04	The District maintained, for public inspection, a special file with all documents necessary to memorialize all governing board members and employees COI disclosures. A.R.S. §38-509	Determine all COI forms and related documents are maintained in one special file and the file is publicly available electronically or in hard copy.
GBMP05	Employees or governing board members with reported conflicts, except as provided in A.R.S. §15-323, refrained from voting upon or otherwise participating in any manner in that contract, sale, purchase, service, or decision of the school district. A.R.S. §§38-502 and 38-503(A) and (B)	If an employee or governing board member disclosed a conflict, determine: • The governing board member or employee with the conflict refrained from participating in any decision-making processes related to the conflict. • Disclosed conflicts were considered in relation to district procurement decisions and contract awards.

GBMP06	The District's management notified the Arizona Auditor General and appropriately resolved all allegations of theft, fraud, or misuse of District monies and assets in a timely manner.	Determine management's action to resolve all allegations of theft, fraud, or misuse of district monies or assets by inquiries of District staff, review of governing board minutes, search of local media coverage, and results of audit test work, including examining copies of the incident reports or communicating with investigative agencies for known allegations. • If the audit firm determines that district management was aware of allegations but did not appropriately resolve them in a timely manner (e.g., no action was taken; actions were not documented; actions were delayed, inadequate, or inappropriate to the circumstances), the audit firm should answer the question "No." This includes instances where an external investigation is underway for allegations but district management did not request the investigation, was not fully cooperating with the investigators, or was not otherwise attempting to resolve the allegations. • If the audit firm determines that district management was not aware of any allegations the question should be answered "N/A." • If the audit firm finds evidence of theft, fraud, or misuse of district assets but does not find evidence that district management was aware of the possible theft, fraud, or misuse, the audit firm should report the incident to the Arizona Auditor General and answer this question "N/A." • If the audit firm finds that the district appropriately resolved allegations of theft, fraud, or misuse and notified the Auditor General answer this question "Yes" and include a summary of the allegation and action taken by District management in the comments. • Also consider if the district's internal controls failed to prevent or detect the theft, fraud, or misuse and include a deficiency in the USFR compliance area where the control failed.
GBMP07	The governing board established written personnel and payroll policies and approved employee contracts, wage agreements, salary and wage schedules, and any other agreed-upon terms of employment.	Determine • Employee pay rate documentation or employment contracts were governing board approved. • District policies and employee pay rate forms or contracts documented all agreed- upon terms of employment, including the number of paid holidays provided to hourly employees, and the number of workdays, number of paid holidays, and the number of hours to be worked per day for contract employees.
GBMP08	The governing board appointed a student activities treasurer and, if applicable, assistant student activities treasurers. A.R.S. §15-1122	Review the governing board minutes to determine the required appointments were completed annually or as necessary for staff changes.
GBMP09	The governing board received monthly Student Activities Fund Reports of Cash Receipts, Disbursements, Transfers, and Cash Balances that were accurately prepared. A.R.S. §15-1123	Sample the Student Activities reports to determine if they were accurately prepared and presented monthly to the governing board.

GBMP10	The governing board approved student clubs' and organizations' fund-raising events. A.R.S. §15-1121 and AG Opinion I84-018	For the deposits sampled in CR11, determine the governing board gave prior approval for student activities events. Indicate in the comments any events that included raffles, bingo, or other forms of gambling, which are not legal events for student clubs.
GBMP11	The governing board obtained voter approval to construct buildings and purchase or lease school sites, unless otherwise exempted by A.R.S. §15-342(25).	
Budgeting–USFR IV		
Objective: To determine whether the District's budget preparation processes ensure that the District properly allocates the monies it receives, stays within those budgets, and accurately informs the public about the use of those monies.		
FY26 #	Question	Review procedure
BUD01	The budget included all funds as required by A.R.S. §15-905 and followed the form's Budget—**Submission and Publication Instructions**.	If no, list the budget requirements that the District did not complete or complete timely, such as: • Prepared budgets for all funds. • Prepared proposed budget and provided notice of public hearing prior to proposing the budget no later than July 5. • Followed truth in taxation requirements and posted required information, if applicable. • Adopted budget by July 15. • Met publishing requirements including providing a link on their website to budget documents on ADE's website.
BUD02	Total budgeted expenditures on the originally adopted budget for the Maintenance and Operation (M&O) and Unrestricted Capital Outlay Funds (UCO) were less than or equal to the budgeted amounts on the published proposed budget and within the general budget limit (GBL) and the unrestricted capital budget limit (UCBL). A.R.S. §15-905(E)	
BUD03	The District revised its budget on or before December 15, if ADE notified the District that its M&O or UCO Fund budgeted expenditures exceeded the GBL or UCBL. A.R.S. §15-905(E)	• Review the District's BUDG-25 Budget Verification letter and any subsequent information from ADE and determine the District appropriately revised its M&O or UCO Fund budgeted expenditures to be within the GBL or UCBL, as applicable. • Verified the District followed the notice and publication requirements described in A.R.S. §15-905(C) and (D) if the M&O or UCO Fund budgeted expenditures exceed the GBL or UCBL by more than 1 percent of the GBL. • Verified the District submitted the revised budget to ADE by December 18. • N/A for districts whose BUDG-25 letter did not indicate a revision was required.

BUD04	The District completed its revised expenditure budget before May 15 and filed it electronically with the Superintendent of Public Instruction by May 18. A.R.S. §15-905(I)	
BUD05	The District reduced the budget by the prior year's overexpenditure (or a portion of the prior year's overexpenditure, as approved by the Superintendent of Public Instruction) or the District began the process to correct its prior year's data that impacts state-aid and/or budget capacity. A.R.S. §§15-905(M) and 15-915	

Accounting records–USFR VI-B

Objective: To determine whether the District accurately maintains accounting records to provide support for financial information. Test work should indicate the procedures performed to document what processes and controls the District has in place to reduce the risk of undiscovered errors that would affect the reliability of information reported to the public and oversight agencies, such as tracing detailed source documents to the District's trial balance that agree to the financial statements.

FY26 #	Question	Review procedure
AR01	The District coded transactions in accordance with the USFR Chart of Accounts.	For transactions auditors sample for test work from accounting records, expenditures, travel, credit cards, journal entries, property control, payroll, and Classroom Site Fund (CSF), determine transactions were coded properly.
AR02	The District sequentially numbered journal entries and retained supporting documentation and evidence that journal entries were signed, dated, and approved by someone other than the preparer.	• Determine that the procedures used to initiate, authorize, record, and process journal entries in the general ledger were properly separated among the staff. If adequate separation was not possible due to the District's limited staff size, determine that management established alternate procedures that adequately control the risk of unauthorized transactions. • Review the journal entry report or otherwise determine the journal entries are sequentially numbered. • Sample adjusting journal entries to determine journal entries were properly supported and approved, signed, and dated by someone other than the preparer. • Indicate the total number of adjusting journal entries that were posted during the fiscal year in the field provided.
AR03	The District transferred monies only between funds listed in the USFR §III Chart of Accounts–Authorized Transfers.	• Sample transfers to determine they were allowable. Fund transfers- in should be coded under other financing sources object code 5200. Fund transfers-out should be coded under other financing uses object code 6930 or other financing uses object code 6910 when transferring to the Indirect Cost Fund. For each operating fund transfer-in, there should be a corresponding fund transfer-out. • Indicate in the comments if the District recorded an unauthorized transfer instead of making a journal entry to correct an accounting error. • Indicate the total number of transfers that were posted during the fiscal year in the field provided.

AR04	The District documented a monthly reconciliation of its revenues, expenditures, transfers, and cash balances by fund monthly and at year-end, after all encumbrance transactions were recorded, to the county school superintendent and county treasurer records, as applicable, and properly researched and resolved differences.	Determine which 1 of the following 3 scenarios apply to the District and respond based on the subsequent bulleted list of procedures. 1. If the District shared accounting system access with the county school superintendent (CSS) determine: • The District documented and dated a monthly review of the CSS' completed reconciliation to the county treasurer's cash balances, including documenting the resolution of any differences. USFR pages VI-B-5 and 6 • If the CSS is not reconciled to the county treasurer, the District documented and dated a monthly and year-end reconciliation of its records directly to the county treasurer records to ensure its cash balances are accurate, including documenting the resolution of any differences. USFR pages VI-B-5 and 6 • The District documented and dated a monthly review of revenue postings and journal entries the CSS initiated, including documenting the resolution of any inaccuracies noted in the review. USFR pages VI-B-5 and 6 2. If the District did not share accounting system access with the CSS and was not approved to assume accounting responsibility as authorized by A.R.S. 15-914.01 determine: • The District documented and dated a monthly and year-end reconciliations of total revenues, expenditures, expenses, and cash balances to the CSS' records, including documenting the resolution of any differences. USFR pages VI-B-5 and 6 • If the CSS was NOT reconciled to the county treasurer, the District documented and dated a monthly and year-end reconciliation of its records directly to the county treasurer to ensure its cash balances are accurate, including documenting the resolution of any differences. USFR pages VI-B-5 and 6. 3. If the District is approved to assume accounting responsibility as authorized by A.R.S. 15-914.01 determine: • The District documented and dated a monthly and year-end reconciliation of its records to the county treasurer to ensure its cash balances are accurate, including documenting the resolution of any differences. USFR pages VI-B-1, 5 and 6

Cash and revenue–USFR VI-C, F, X-G and X-H		
Objective: To determine whether the District maintained controls over cash transactions to safeguard monies, protect employees involved in handling monies from accusations of misuse, and reduce the risk of theft or loss. Test work for cash and revenue should document how the processes work, employees involved in those processes, and how the processes were verified.		
FY26 #	Question	Review procedure
CR01	The District maintained only authorized bank accounts as listed in the USFR and did not have any inactive bank accounts.	Discuss with the District and obtain bank statements for all bank accounts the District has access to and determine the District included the activity of all identified bank accounts in its accounting records. In the comments, list all bank accounts that are not authorized in the USFR or that are inactive, indicating the account name, June 30 balance, purpose, and active or inactive status.
CR02	The District used an M&O Fund revolving bank account in accordance with A.R.S. §15-1101.	Determine: • The M&O Fund revolving bank account was maintained at an allowable amount, approved by the governing board, and operated by the District on an imprest basis. • All reimbursements for revolving bank account expenditures were made by June 30 so that expenditures were reported in the proper accounting period. • The expenditures were only for immediate cash outlay. • The District refrained from paying taxable travel reimbursements, salaries, and wages from the account.
CR03	The District used miscellaneous receipts clearing bank account(s) in accordance with A.R.S. §15-341(A)(20).	Determine: • Disbursements were made only by electronic payment or check payable to the county treasurer at least monthly. • The account was cleared at year-end to ensure revenues were recorded in the proper accounting period. For deficiencies, describe in the comments any months where the disbursements were not completed versus completed late and the uncleared account balance at year-end, if applicable.
CR04	The District used a Food Service Fund clearing bank account(s) in accordance with USFR page X-F-5 and Arizona Attorney General Opinion I60-35.	Determine: • Disbursements were made only by electronic payment or check payable to the county treasurer at least monthly. • The account was cleared at year-end to ensure revenues were recorded in the proper accounting period. For deficiencies, describe in the comments any months where the disbursements were not completed versus completed late and the uncleared account balance at year-end, if applicable.

CR05	The District used a Food Service Fund revolving bank account in accordance with A.R.S. §15-1154.	Determine: • The Food Service Fund revolving account was maintained at an amount approved by the governing board that did not exceed $500 and operated by the District on an imprest basis. • All reimbursements for revolving bank account expenditures were made by June 30 so that expenditures were reported in the proper accounting period.
CR06	The District used an Auxiliary Operations Fund bank account in accordance with A.R.S. §15-1126.	• Determine Auxiliary Operations Fund bank account checks were signed by 2 employees designated by the governing board. • If the district used petty cash funds, determine the petty cash funds were established from the Auxiliary Operations Fund in amounts approved by the governing board and operated on an imprest basis.
CR07	The Auxiliary Operations Fund bank or treasurer account deposits included all monies raised in connection with the activities of school bookstores and athletics. A.R.S. §15-1125	Determine: The Auxiliary Operations Fund included only monies raised in connection with school bookstores and athletics, including extracurricular activities fees tax credit monies, if appropriate. (See CR08) • Prenumbered cash receipt forms or tickets were issued to document cash collected. • Daily cash collection summaries were prepared and reconciled to sales reports/tickets issued.
CR08	The extracurricular activities fees tax credit (tax credit) monies were included in the Auxiliary Operations Fund or separately accounted for in an Extracurricular Activities Fees Tax Credit Fund. A.R.S. §15-341(A)(19) and (20)	Determine extracurricular activities fees tax credit monies were deposited in the Auxiliary Operations bank account or treasurer's account, or in a separate tax credit treasurer's account.
CR09	The District used the Auxiliary Operations Fund revolving bank account(s) in accordance with A.R.S. §15-1126.	Determine: • Auxiliary Operations Fund revolving bank account(s) were maintained at amounts approved by the governing board and operated by the District on an imprest basis. • All reimbursements for revolving bank account expenditures were made by June 30 so that expenditures were reported in the proper accounting period.
CR10	The District used the Student Activities Fund bank account(s) in accordance with A.R.S. §15-1122.	Determine Student Activities Fund bank account checks were signed by the student activities treasurer or assistant treasurer and 1 other person authorized by the governing board.

CR11	The Student Activities Fund monies were deposited in a bank or treasurer account designated as the Student Activities Fund account.	Determine: • Student Activities Fund deposits included only monies raised by student clubs and organizations. • Student Activities Fund deposits were properly supported by prepared reports that reconciled sales to cash collected at student activities events using: o documented tickets, o sequentially numbered cash receipts, o a cash register, or o a count of items on hand before and after a sale.
CR12	The District used the Student Activities Fund revolving bank account in accordance with A.R.S. §15-1124.	Determine: If used, the Student Activities Fund revolving bank account was: • Established from the M&O Fund in an amount approved by the governing board and operated on an imprest basis. • Returned to the credit of the M&O Fund at fiscal year-end and all disbursements were appropriately accounted for in the Student Activities Fund.
CR13	The District used the federal payroll tax withholdings bank account in accordance with USFR page VI-H-6.	
CR14	The District used the State income tax withholdings bank account in accordance with A.R.S. §15-1222.	
CR15	The District used the employee insurance programs withholdings bank account(s) in accordance with A.R.S. §15-1223.	
CR16	The District used the payroll direct deposits clearing bank account in accordance with A.R.S. §15-1221.	Determine the account was used only for direct deposit payments to employees' banks, which would include amounts withheld for federal savings bond plans. This account should not accumulate monies and should be maintained at a $0 balance when not processing payments.
CR17	The District used the electronic payments clearing bank account in accordance with A.R.S. §15-1221.	Determine the account was used only for making electronic payments to vendors, including the Arizona State Retirement System (ASRS). This account should not accumulate monies and should be maintained at a $0 balance when not processing payments.
CR18	The District used the grants and gifts to teachers bank account in accordance with A.R.S. §15-1224.	
CR19	The District used the principals' supplies bank account(s) in accordance with A.R.S. §15-354.	

CR20	The use of debit cards was prohibited as a payment method associated with any District bank account.	• Review bank account statements for debit card activity. • List all bank accounts with debit cards in the field provided and indicate the total annual amount of debit card activity. • Determine whether the District made cash withdrawals and specify the total amount of cash withdrawals, if any.
CR21	The District paid bank charges from only the M&O Fund revolving bank account, Food Service Fund revolving bank account, Auxiliary Operations Fund bank account, and Auxiliary Operations Fund revolving bank account(s) or, if not, the bank charges were reimbursed from an appropriate District fund or bank account.	Sample bank statements to identify any bank charges and determine the charges were appropriate for the account or were reimbursed to the appropriate fund or bank account.
CR22	The District separated responsibilities for cash-handling and recordkeeping among employees (i.e., receiving, depositing, and recording revenues), to safeguard monies.	If adequate separation was not possible due to the District's limited staff size, determine adequate management review procedures were in place for handling monies related to bookstores, auxiliary operations, food service, student activities, and miscellaneous receipts to compensate for employees performing incompatible functions. Determine cash received was safeguarded in a locked cash drawer, cash register, or other secure location immediately upon receipt, and access was limited to only those employees who required access.
CR23	The District supported deposits with issued receipts, cash receipt summary reports, mail logs, etc., and reconciled sales to amounts collected with summary reports or ticket logs.	Determine all sampled cash receipt types (e.g., miscellaneous, auxiliary operations, food service, etc.) were adequately supported. (See example cash receipt forms in USFR section VI-F and applicable appendix sections.) Student activities deposits should be addressed on CR11. The term "cash" includes currency on hand, such as petty cash funds and cash receipts not yet deposited, and negotiable instruments, such as drafts, checks, warrants, credit card transactions, and money orders.
CR24	The District's deposits were made in a timely manner and supported by deposit slips or other deposit transmittal documentation.	Sample deposits and determine: • Cash received was deposited intact daily when significant, or at least weekly. If not, include number of days until deposited in the deficiency comment. • Monies deposited were accompanied by a deposit transmittal form or a treasurer's receipt. • Validated deposit slips or other evidence indicating the amount and date of deposit were retained for deposits in District bank accounts or with the county treasurer and were agreed to applicable bank deposit slips or other deposit transmittal documentation. Examine deposits to determine deposit slips are sequentially numbered.
CR25	The District's deposits with the county treasurer were reconciled.	Determine the District reconciled all validated treasurer's receipts or revenue posting reports it received from the treasurer or CSS following a deposit. The District should follow the procedures described on USFR page VI-F-5 and 6.

CR26	The District retained supporting documentation for disbursements from bank accounts.	• Review records and determine cash disbursements were made from bank accounts with sequentially numbered checks or electronic fund transfers. • Sample disbursements and determine supporting documentation was retained. • Review bank statements for images of cancelled checks payable to cash or bearer.
CR27	The District safeguarded unused checks.	• Determine unused checks were stored in a secure location and access to them limited to only authorized personnel who were not check signers. (Not applicable to revolving funds as the revolving fund custodian should maintain the checks.) • Examine unused check stock to determine the District refrained from presigning blank or incomplete checks.
CR28	The District safeguarded signature stamps, signature plates, and electronic or digital signatures used for approving accounting transactions, checks, and other District documents to ensure that access was limited to only the employee whose signature they represented.	
CR29	An employee not involved with cash-handling or issuing checks reconciled all District bank accounts monthly, and an employee independent of the cash-handling process reviewed, signed, and dated the monthly bank reconciliations.	Review a sample of bank account reconciliations and determine reconciliations were completed timely. If not, indicate which months were not reconciled timely and which months were not completed at all in the deficiency comment. If adequate separation was not possible due to the District's limited staff size, determine district management established adequate alternate review procedures to control the risk of unauthorized transactions, and compensate for employees performing incompatible functions.
CR30	The District tracked and reconciled the number of meals sold to the total cash collected per day.	Determine the District used a method, such as prepayment accounts, student ID, or meal tickets to track the number of meals sold, reconciled meals sold to the total cash collected per day, and researched and resolved any cash overages and shortages.

Supplies inventory–USFR VI-D		
Objective: To determine whether the District has effective controls in place to safeguard significant amounts of supplies stored for future use, report inventories, and prevent theft, overstocking, understocking, spoilage, and obsolescence.		
FY26 #	Question	Review procedure
SI01	The District maintained supplies inventory for significant amounts of supplies stored for future use and physically safeguarded supplies to prevent unauthorized use, theft, damage, and obsolescence and enable accurate financial reporting.	For significant amounts of supplies stored for future use, determine: • The District's process for maintaining supply inventories, such as office supplies, food service supplies and food, auto parts, and fuel as applicable, was adequate to safeguard District resources. • If a periodic inventory was maintained, a complete physical inventory was performed and reconciled annually. If a perpetual inventory was maintained, a complete physical inventory was performed and reconciled at least every 3 years. • Supplies inventory list(s) were maintained that included item and unit descriptions, purchase document numbers, quantities, unit costs, extended costs, page totals, and a grand total prepared at the end of each fiscal year for all supplies, including donated items.
Property control–USFR VI-E		
Objective: To determine whether the District has effective controls to safeguard property from theft and misuse since significant resources are invested in acquiring and maintaining District property. Test work should be completed on a sample basis annually and documented to ensure that land, buildings, and equipment are properly valued, classified, and reported on the stewardship and capital assets lists.		
FY26 #	Question	Review procedure
PC01	The District maintained a capital assets list that included all required information listed in the USFR for all land, land improvements, buildings, building improvements, and equipment with costs that exceed the District's adopted capitalization threshold.	Determine: • The capital assets list contained all the required information listed on USFR pages VI-E-4 and 5. • The District had a method to track depreciation information that conformed to Generally Accepted Accounting Principles for all depreciable capital assets. • Indicate in the comments the method/program the District used to maintain the capital assets list (i.e., Visions, Excel, etc.).
PC02	The District had security controls in place to help prevent theft, loss, unauthorized use, or damage to District property.	Determine: • Security controls were in place based on physical observation of the District's premises. • The District established procedures to track property that is checked out from a central area (e.g., audio/visual equipment, media items, computers, or vehicles) that documents the reason for the use, the person responsible for the property while checked out, and the return of the property. • For vehicle use, the District maintained and reviewed detailed mileage and use logs to ensure the vehicles are used only for District business.

PC03	The District recorded additions including financed assets on the capital assets list and reconciled capitalized acquisitions to capital expenditures at least annually.	Determine all capital acquisitions were added to the capital assets list (after all encumbrances had been included in the accounting records). The District should retain all related supporting documentation for the life of the asset.
PC04	The District's stewardship list for items costing at least $1,000 but less than the District's capitalization threshold, including financed assets, included all required information.	• Determine the stewardship list contained all the required information listed on USFR page VI-E-5. • Indicate the method/program used to maintain the stewardship list (i.e., Visions, Excel, etc.).
PC05	The District's capital assets and stewardship items were identified as District property, properly tagged, and included on the corresponding list.	Sample 15 items (5 items from the stewardship list, 5 from the capital asset list, and 5 items from the premises), and determine if the identifying number affixed to each of these 15 items agrees to the information recorded on the corresponding list.
PC06	The District reconciled the current year's June 30 capital assets list to the previous year's June 30 list.	Determine that the capital assets list was updated for audit year acquisitions, transfers, or disposals.
PC07	The District performed a physical inventory of all equipment at least every 3 years and reconciled the inventory results to the stewardship and capital assets lists upon completion.	Determine that a physical inventory of all equipment was completed and reconciled in the last 3 years and indicate the date the District's last physical inventory was performed and reconciled in the fields provided. • If the inventory was completed during the audit year, determine the District developed physical inventory instructions and documented following those instructions. • If the inventory was completed during the audit year, determine an employee independent of capital asset purchasing, custodial, and recordkeeping responsibilities conducted the inventory or that adequate alternative review procedures were used to ensure the accuracy of the inventory.
PC08	The governing board or authorized designee approved stewardship and capital asset disposals during the fiscal year, and the District removed the assets from the corresponding list and disposed of them in accordance with A.A.C. R7-2-1131.	• Determine the District prepared a request-for-authorization form to dispose of District property and the items identified for removal or disposal were removed from the capital assets or stewardship list (see example on USFR page VI-E-18). • Indicate the date(s) disposals were approved by the governing board or authorized designee in the field provided. USFR pages VI-E-10 and 11 • The District recorded proceeds from the sale of school property in the School Plant Fund or returned the monies to a State or federal agency, such as the Arizona Department of Administration's School Facilities Division as required by A.R.S. §§15-341, 15-342, or 41-5741 or a federal granting agency based on grant requirements.

Expenditures–USFR VI-G		
Objective: To determine whether the District has effective controls for expenditures in place to ensure expenditures are for an allowable District purpose. Test work should document processes and controls that demonstrate expenditure transactions are properly approved, are for an amount within budget capacity or available cash, and protect employees from allegations of misuse.		
FY26 #	Question	Review procedure
EXP01	The District separated responsibilities for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization).	• Determine responsibilities were separated for expenditure processing among employees (i.e., voucher preparation, recordkeeping, and authorization). If adequate separation was not possible due to the District's limited staff size, determine whether adequate management review procedures were in place to compensate for employees performing incompatible functions.
EXP02	The District monitored budget capacity in budget-controlled funds and cash balances in cash-controlled funds before approving purchase orders (PO) and authorizing expenditures, except as authorized in A.R.S. §§15-207, 15-304, 15-907, and 15-916.	Determine the District had procedures to monitor budget/cash balances to prevent overexpenditures, such as: • Encumbrance amounts are in place prior to releasing a PO. • POs were sequentially numbered. • Blanket POs include a definite time period and specific dollar limit. • POs are approved by authorized District personnel prior to issuance. Review the District's ADE BUDG75 report for M&O and UCO Fund overexpenditures. List all budget-controlled funds that exceeded their budget limit at year-end and cash- controlled funds where the District exceeded the cash balance and incurred a cash deficit at the time of the expenditure, including the overexpenditure or cash deficit amounts.
EXP03	The District's expenditures were made only for allowable District purposes, properly satisfied the specific purposes required for any restricted monies spent, and were adequately supported by documentation required by the USFR.	• Sample expenditures from a variety of District funds and determine the expenditures were allowable and supported by required documentation, such as receiving reports that documented the date of receipt, quantity received, and signature of the recipient for all goods and services received, vendor invoices, and purchase orders, to determine prices and quantities received were verified before payments were issued to vendors. • Determine invoices were stamped "paid" or otherwise marked to help prevent duplicate payments.
EXP04	The District's extracurricular activities fees tax credit monies were expended only for eligible activities that qualified under A.R.S. §§43-1089.01 and 15-342(24).	Based on a sample of tax credit expenditures, determine tax credit monies were spent only on activities that qualified under A.R.S. §§43-1089.01 and 15-342(24) (See the Arizona Department of Revenue's website for guidance at https://azdor.gov/tax-credits/public-school-tax-credit).

EXP05	The District's Student Activities Fund disbursements and transfers of monies among student clubs were issued only when cash was available in the student club account and properly authorized by or on behalf of the student members of a particular club and documented in the club minutes.	Determine: • If any student club accounts had a negative cash balance. • Documentation to support that disbursements or transfers were authorized by or on behalf of the student club was maintained.
EXP06	The District agreed invoice amounts to contract pricing and terms and conditions for expenditures made through written quotes or competitively awarded contracts, including cooperative contracts.	For the sample of expenditures in EXP03 and payments related to the procurement type identified in PRO01 and PRO02, determine the amounts paid agreed to the quote, PO pricing and terms, or to the contract terms and conditions. If pricing did not agree, the District should have included an explanation on the documentation (e.g., on the PO or invoice) that included an authorized reason for the difference or what action was taken to remedy the difference.
EXP07	The District prepared an Advice of Encumbrance for levy funds based on the list of liabilities for goods or services received but not paid for by June 30, including payroll, and filed it with the CSS by July 18. A.R.S. §15-906 (Districts authorized by A.R.S. §15-914.01 to participate in the accounting responsibility program should perform the duties as described in A.R.S. §15-304.)	Review documentation that supported the amounts on the Advice of Encumbrance and determine it was filed with the CSS as required.
EXP08	The District properly prepared the Career Technical Education District (CTED) Supplanting worksheet and adequately supported that monies received from a CTED were used only for career and technical education and to supplement, rather than supplant, the District's base year career and technical education courses. A.R.S. §15-393	Determine: • Monies received as part of CTED funding were used to supplement and not supplant base year career and technical education courses. • The District provided the Work Sheet for Determining Appearance of Supplanting with CTED Monies to the CTED's Governing Board and ADE as required by A.R.S. §15-393 (D)(7).
EXP09	The District retained fully executed copies of each intergovernmental agreement (IGA) and payments for services were made or received, as applicable. A.R.S. §11-952	If the District was a fiscal agent, determine the IGA monies were maintained in the appropriate fund at the County Treasurer, and a monthly financial report of receipts and disbursements was provided to participants.
Travel–USFR VI-I		
Objective: To determine whether the District implemented effective controls to ensure employees and governing board members were traveling for District purposes and travel expenditures and reimbursements complied with the Arizona Department of Administration (ADOA) limits.		
FY26 #	Question	Review procedure
TRA01	The District's travel expenditures (lodging, meals, and incidentals) and mileage reimbursements were for District purposes and reimbursed within the maximum reimbursement amounts established by the Director of the ADOA and in accordance with governing-board-prescribed policies and procedures. Amounts were reimbursed and reported as a taxable employee benefit if no overnight stay or no substantial sleep/rest occurred. A.R.S. §15-342(5)	• Sample travel expenditures to determine reimbursements were within allowable maximums and indicate in the comments the amount of any overpayments. • For any lodging reimbursements sampled, determine they were properly supported by receipts or conference brochures and rates were confirmed by the District prior to reimbursement.

Credit cards and purchasing cards–USFR pages VI-G-14 through 19		
Objective: To determine whether the District has implemented effective controls over credit card and purchasing card (p-card) purchases to help reduce the risk of misuse and unapproved or fraudulent transactions.		
FY26 #	Question	Review procedure
CPC01	The District used credit cards.	List the number and type of credit cards including store cards and fuel cards in the field provided.
CPC02	The District used p-cards.	List the number and type of p-cards in the field provided.
CPC03	The District ensured different employees were responsible for issuing cards; requesting, authorizing, and executing purchases; and payment processing.	
CPC04	The District issued and tracked possession of all District credit cards and trained employees who make credit card purchases or process transactions on the District's policies and procedures.	Determine: • The District followed its governing-board-approved credit card policy. • The District maintained a complete list/log of card users to track card possession and personnel for training. • Card policies prohibited cash withdrawals and no cash withdrawals occurred. • Signed card user agreements were required and retained for all users that outlined card use policies and procedures, including possible disciplinary actions for misuse. • Cards were issued with defined dollar limits based on the card or transaction type. • Annual training was supported by a dated employee sign-in sheet or other documentation that supports each applicable employee's participation.
CPC05	The District recovered cards immediately from terminated employees.	Determine whether the District recovered cards from card users who had terminated employment with the District, if any, during the audit year.
CPC06	The District's management periodically reviewed purchases for unauthorized vendors and purchases over approved limits and/or purchases that circumvent the procurement rules and District policies.	Determine District management documented periodic review of credit card purchases and vendor usage as a fraud risk prevention measure to confirm procurement rules and District policies were not circumvented.
CPC07	The District ensured someone other than a card user reconciled credit card and p-card supporting documentation and billing statements.	• Determine billing statements were mailed directly to the District office. • Review reconciliations for statements selected in CPC08 for completeness/accuracy and determine they were completed by someone who was not a card user.

CPC08	The District's card purchases were only for authorized District purposes, within the dollar limits authorized for the employee, and supported by valid receipts or transaction logs that clearly identify the employee making the purchase.	Sample at least 3 monthly credit card/p-card statements in total (including store cards and fuel cards) from different cards/accounts if the District has more than 1 card/account) and examine the statements for: • Unusual or inappropriate purchases. • Purchases not made within the authorized ADOA travel reimbursement rates. • Purchases not made within the District's policies and procedures. • From the statements sampled above, select at least 5 individual transactions in total and review supporting documentation for the purchases. • Determine the District verified that goods that were prepaid, such as items purchased online, by phone, or fax, were received or disputed the charge as appropriate.
CPC09	The District paid credit card and p-card statements before the due date to avoid finance charges and late fees.	Determine if there were any finance charges or late fees paid. Describe the frequency and amounts of any finance changes and late fees in the comments.
Procurement–USFR VI-G and A.A.C. R7-2-1001 et seq		
Objective: To determine whether the District followed the A.A.C. (School District Procurement Rules) and USFR purchasing guidelines to promote fair and open competition among vendors that helps ensure the District is getting the best value for the public monies it spends.		
FY26 #	Question	Review procedure
PRO01	The District requested at least 3 written quotes for purchases costing at least $10,000 but less than $100,000 and followed the guidelines prescribed by the USFR.	Auditors should examine expenditures under $100,000 by vendor or like-items (vendor total list) and determine the District: • Requested and obtained at least 3 written quotes (see USFR pages VI-G-9 through 11). • Retained the vendor name, person(s) contacted, telephone number, and price quotes or results of the request in a procurement file or with the related requisition form or purchase order. • If 3 written quotes were not obtained, the District documented the vendors contacted and their reasons for not providing quotes and retain this with the procurement file or related documents.
PRO02	The District properly procured expenditures that individually or cumulatively totaled over $100,000.	Auditors should examine expenditures over $100,000 by vendor or like-items (vendor total list) and discuss with the District the types of procurement performed for the items and solicitations issued during the year. Based on this analysis and discussion, determine the population for IFBs or RFPs (PRO04–14 and PRO21) and cooperative purchases (PRO18-20). Auditors should also consider the procurement for School Facilities Oversight Board projects, if any. If the District did not procure an expenditure or maintain documentation for the procurement, document that deficiency here. The remaining solicitations should be considered for test work below.

PRO03	The District maintained a list of prospective bidders. A.A.C. R7-2-1023	Determine: • The District compiled and maintained a list of persons who requested to be added to the District's list of prospective bidders. • The District furnished those bidders with notice of available bids for any applicable audit year solicitations.
PRO04	The District issued solicitations for invitation for bids (IFB) or request for proposals (RFP) during the fiscal year.	• Sample solicitations completed during the FY audited. If the District did not complete any solicitations during the year, answer this question "No" and questions PRO05–PRO16 will automatically populate as "N/A." • Sample a specified number of procurements completed during the fiscal year based on the District's ADM or determine whether a larger sample is needed: <1,000 ADM (5); 1,000-5,000 ADM (10); >5,000 ADM (15). • Of the total solicitations sampled, at least 40 percent must be for competitive sealed bids (IFB) and at least 40 percent must be for competitive sealed proposals (RFP), and as applicable, at least 1 awarded contract should be for traditional construction (design-bid-build), and at least 1 should be for qualified select bidders list, or construction-manager-at- risk, design-build, job-order-contracting (PRO11), and specified professional services (PRO15), as applicable. If the District acted as a lead district in a cooperative purchase, at least 2 of these contracts should be included in the sample (PRO21). • For all procurement questions, the audit firm must refer to the School District Procurement Rule(s) cited in the question to determine the District complied with the specific requirement(s). • If the response is "No," indicate which specific requirement(s) were not complied with.
PRO05	The District published and, as applicable, provided other adequate notice of the issuance of solicitations. A.A.C. R7-2-1022, R7-2-1024(C) or R7-2-1042(C)	
PRO06	The District issued solicitations at least 14 days before the time and date set for bid opening or the closing date and time for receipt of bids or proposals. A.A.C. R7-2-1024(A) or R7-2-1042(B)	Determine the District documented the specific reason in writing if a shorter time frame was deemed necessary.
PRO07	The District included all required content in the solicitation, as applicable. A.A.C. R7-2-1024(B) or R7-2-1042(A)	Determine the solicitation documentation, including the uniform general terms and conditions and special terms and conditions, contained all the required content. In addition, determine whether the District took necessary steps to ensure bidders/offerors did not violate A.R.S. §15-213(O). A.A.C. R7-2-1024(B)(1)(q) and R7- 2-1042(A)(1)(l)
PRO08	The District recorded the time and date that sealed bids or proposals were received and stored bids or proposals unopened until the time and date set for opening. A.A.C. R7-2-1029 or R7-2-1045	

PRO09	If the District awarded multiple contracts, it established and followed procedures for the use and award of multiple contracts. A.A.C. R7-2-1031(D) and R7-2-1050(C)	Determine the District: • Included in the solicitation(s) notification that multiple contracts may be awarded, the District's basis for determining whether to award multiple contracts, and the criteria for selecting vendors for the multiple contracts. A.A.C. R7- 2-1031(C) and R7-2-1050(B) • Documented the specific reason(s) that a single award was not advantageous to the District and retained documentation that supported the basis for a multiple award. A.A.C. R7-2-1031(D) and R7-2-1050(C) • Limited contract awards to the least number of suppliers necessary to meet the requirements of the District. A.A.C. R7-2-1031(D) and R7-2-1050(C)
PRO10	The District evaluated bids/proposals and awarded contracts according to A.A.C. R7-2-1031, R7-2-1032, R7-2-1046(A)(1), or R7-2-1050 and retained documentation to support the award(s).	Determine: • For contracts where only 1 responsive bid or proposal was received, the District followed the requirements of A.A.C. R7-2-1032 or R7-2-1046(A)(1) and retained documentation for that determination. • For purchases made through an IFB, contracts were awarded to the lowest responsible and responsive bidders whose bids conformed to the requirements and evaluation criteria set forth in the IFB. A.A.C. R7-2-1031 • For purchases made through an RFP, contracts were awarded to the offerors determined to be the most advantageous, based on the factors set forth in the RFP, and documentation was retained for the determination. A.A.C. R7-2-1050
PRO11	If the District procured construction projects that used construction-manager-at-risk, design-build, job-order-contracting, or qualified select bidders lists to procure construction services, it complied with the requirements of A.A.C. R7-2-1100 through R7-2-1115.	
PRO12	The District obtained signed procurement disclosure statements for all procurement consultants, members of a procurement advisory group, or evaluation committee involved in each specific procurement process. A.A.C. R7-2-1008	Determine: • The Procurement disclosure statement includes the required disclosures described in A.A.C. R-7-2-1008(C). (These forms are different than the COI forms required by A.R.S. §§38-502 and 38-503.) • The District did not compensate nonemployees who served on procurement advisory groups or evaluation committees, except for reimbursements allowed by the District's travel policy. N/A if the District did not issue solicitations during the year.
PRO13	The District prepared the applicable written determinations as required by the specific procurement rule(s). A.A.C. R7-2-1004	For all solicitations sampled in PRO04, determine the District prepared any required written determinations based on the type of procurement, specifying reasons and how the written determination was made, and maintained the written determination in the procurement file.

PRO14	The District followed A.R.S. §15-213 and A.A.C. R7-2-1093 for the use of multi-term contracts.	Determine: • The terms and conditions of renewal or extension, if any, were included in the IFB or RFP. A.R.S. §15-213(L) and A.A.C. R7-2-1093 For materials or services and contracts for job-order-contracting construction services that were entered into for more than 5 years, the governing board determined in writing that a contract of longer duration would be advantageous to the District before the procurement solicitation was issued. A.R.S. §15-213(L) and A.A.C. R7-2-1093
PRO15	The District followed A.A.C. R7-2-1117 through R7-2-1123 for contracts for specified professional services.	
PRO16	The District's procurement files included the required information, as applicable. A.A.C. R7-2-1001(97)	Based on the procurement files tested in the questions above and if a response is "No," specifically indicate which document was not included in the file. Do not include items already cited on another question.
PRO17	The District provided training and guidance related to restrictions on soliciting, accepting, or agreeing to accept any personal gift or benefit with a value of $300 or more. A.R.S. §15-213(N) and A.A.C. R-7-2-1003	Determine the District: • Provided training and guidance to employees, their supervisors, and others who participate in the planning, recommending, selecting, or contracting for materials, services, goods, construction, or construction services of a school district or school purchasing cooperative. • Maintained documentation of the attendees and training date. Describe in the comments if any gift violations were identified and the District's actions to address the violation, if any.
PRO18	The District used only school district purchasing cooperatives contracts from cooperatives it was a member of or used only lead district contracts that it was listed as a member of in the solicitation or ensured its additional purchases would not have materially increased the volume stated in the original solicitation. A.A.C. R7-2-1191 through R7-2-1195	Determine the District: • Retained cooperative purchasing agreements on file for each cooperative or lead district it used. • Did not use a cooperative's or another district's contract for purchasing goods or services unless the District was a member or included in the original solicitation or the District determined its purchases would not have materially increased the estimated volume stated in the original solicitation.
PRO19	The District performed due diligence to support the use of each cooperative or lead district contract the District made purchases from during the audit period. A.A.C. R7-2-1191(D)	• Indicate the name of each purchasing cooperative/consortium used and also provide the name of any lead district used by the cooperative/consortium to procure the contract used by the District. • Determine the District's due diligence process ensured that the cooperative complied with the A.A.C (School District Procurement Rules). See Procurement FAQs 9 & 10

PRO20	The District prepared written determinations for any specified professional services, construction, construction services, or materials purchased through a school purchasing cooperative. A.A.C. R7-2-1004 and A.R.S. §15-213(B)	For purchases made from a cooperative contract, determine: • The District followed its prescribed method and procedures to prepare written determinations when choosing to use a cooperative contract as required by A.A.C. R7-2-1004. • Each determination specified the reasons for using the cooperative contract, including how the determination was made, the rationale for the vendor selected, and how it is advantageous to the district.
PRO21	The District, when acting as a lead district in a procurement, followed the procurement procedures required for competitive sealed bidding or competitive sealed proposals, as applicable, and considered the total estimated volume of purchases for all public procurement units identified in the solicitation. A.A.C. R7-2-1011	Determine the District: • Followed the procurement rules required for IFBs or RFPs as applicable. • Identified the total estimated volume of purchases for all public procurement units in the solicitation. A.A.C. R7-2-1011 Sample at least 2 contracts issued as lead district, if any, and indicate in the comments the number of contracts the District procured as a lead district and identify the applicable purchasing consortium or cooperative.
PRO22	For all emergency procurements, the District retained a written statement documenting the basis for the emergency, the selection of the particular contractor, and why the price paid was reasonable, and this statement was signed by the individual authorized to initiate emergency procurements. A.A.C. R7-2-1055 and R7-2-1056	
PRO23	The District's governing board approved all sole-source procurements before any purchases were made, and the written determinations were retained in the procurement files. A.A.C. R7-2-1053 and R7-2-1086	Determine the governing board approved all sole-source procurements prior to making a purchase or entering a contract and that the written determinations include the following information required by A.A.C. R7-2-1053. 1. A description of the procurement needed and the reason only a single source was available, or why no reasonable alternative exists. 2. The name of the proposed supplier. 3. The duration and estimated total dollar values of the proposed procurement. 4. Documentation that the price was fair and reasonable. 5. A description of the efforts made to seek other sources.
PRO24	For any purchase of services from governing board members or goods or services from District employees, regardless of the expenditure amount, the District followed the School District Procurement Rules, except as authorized by A.R.S. §15-323.	Based on discussion with the District and review of the vendor totals list, identify any purchases from governing board members or employees and determine if the purchases were completed appropriately. A.R.S. §38-503(C) See exceptions in A.R.S. §15-323(B) and (C).
PRO25	The District followed the School District Procurement Rules for purchases of any supplies, materials, and equipment from governing board members if the purchase exceeded $100,000 or followed the guidelines for written quotes if below the threshold. A.R.S. §38-503(C)	Based on discussion with the District and review of the vendor totals list, identify any purchases from governing board members or employees and determine if the purchases were completed appropriately.

PRO26	For purchases the District made from General Services Administration (GSA) schedules 70-IT and 84-Law Enforcement, the governing board first authorized the contracts in writing. A.R.S. §15-213(K) and A.A.C. R7-2-1196(C)	Determine the governing board minutes included written approval for purchases from a GSA contract.
Classroom Site Fund–A.R.S. §15-977		
Objective: To determine whether the District appropriately spent these State sales tax revenues for teacher pay and programs to support students, such as class size reduction, dropout prevention, and tutoring, as allowed by law.		
FY26 #	Question	Review procedure
CSF01	The District's Classroom Site Fund (CSF) expenditures did not exceed its Classroom Site Fund Budget Limit (CSFBL).	
CSF02	The District adopted a performance-based compensation system for at least a portion of its CSF monies and ensured CSF expenditures were made only for allowable purposes listed in A.R.S. §15-977. See **CSF FAQs**	
CSF03	The District's CSF monies were used to supplement, rather than supplant, existing funding from all other sources. See CSF FAQ 3	
Payroll–USFR VI-H		
Objective: To determine whether the District has implemented effective controls to reduce the risks associated with payroll expenditures by documenting evidence of review, verification, and approval to ensure employees are appropriately compensated.		
FY26 #	Question	Review procedure
PAY01	The District's payroll-processing responsibilities (i.e., adding new employees, adjusting pay, payroll preparation, payroll authorization, and warrant distribution) were separated among employees.	• Determine the District separated payroll-processing responsibilities (i.e., adding new employees, adjusting pay, payroll preparation, payroll authorization, and warrant distribution) among employees. • If separating payroll processing was not possible due to the District's limited staff size, determine management established alternate procedures that adequately control the risk of unauthorized transactions.
PAY02	The District established a delayed payroll system for hourly employees that did not delay payments more than 7 business days during its normal 2-week payroll processing cycle and allowed adequate time for payroll adjustments to be made, if needed, between the end of the pay period and the payment date.	Determine the payroll system allowed processing time for any payroll adjustments to be made between the end of the pay period and the payment date and did not delay payments more than 7 business days during its normal 2-week payroll processing cycle.
PAY03	The District required employees' contracts or personnel/payroll action forms to document the employees' election for prorated compensation.	For a sample of employees who elected to have their pay prorated, determine they completed prorated compensation elections before beginning work and the election was not changed after work had begun.
PAY04	The District ensured any adjustments to pay for employees who received prorated wage payments during the year were based on each employee's official rate of pay.	For a sample of employees who received a pay adjustment during the year, determine the District used the employees' official rate of pay to calculate the pay adjustment.

PAY05	The District ensured hourly employees were not paid for more than the actual hours worked to date.	• Determine the District had a procedure in place to review employee hours worked to identify any overpayments at any point throughout the year. • Sample hourly employee payroll payments to determine employees were not paid for more than the actual hours worked to date. • Indicate in the comments the amount of any over/under payments identified
PAY06	The District's individual personnel files included all appropriate supporting documentation, as listed on USFR pages VI-H-4 through 6.	For a sample of employee files, determine the files contained all the required documents. If not, determine the District had a plan to obtain the required documents.
PAY07	The District ensured that valid fingerprint clearance cards were on file for all required personnel and a method to identify employees whose cards were going to expire was in place. A.R.S. §§15-512, 15-342 and 41-1750(G)	• Determine the District had a method to obtain and track employees' fingerprint clearance cards and other credentials and monitor expiration dates. • Based on the sample in #PAY06 and based on review of the District's list of employees requiring fingerprint clearance cards, determine the District maintained valid fingerprint clearance cards for required personnel. For deficiencies related to expired cards, describe in the comments the expiration date.
PAY08	The District enrolled employees who met the Arizona State Retirement System (ASRS) membership criteria, withheld employee contributions, and in a timely manner remitted employee and District contributions in accordance with the **ASRS Employer Manual**.	
PAY09	The District accurately calculated and in a timely manner remitted the alternative contribution rate payments to ASRS for all applicable positions filled by ASRS retirees. (**https://www.azasrs.gov/content/alternate-contribution-rate**).	For a sample of ASRS retirees employed determine the ACR was accurately calculated and remitted in a timely manner.
PAY10	The District calculated the accrual and use of vacation, sick leave, and compensatory time for all employees in accordance with District accrual rates for specified years of service, maximum amounts to be accrued, and disposition of accrued time upon separation of employment following District policies.	Determine the District had a system in place (computer-based program or spreadsheet) to track employee leave balances for accrual and use of leave and determine accuracy of that system.
PAY11	Attendance records were prepared for each pay period for each employee subject to the Fair Labor Standards Act (FLSA) and were approved by the employee and the employee's supervisor.	Sample employees subject to FLSA and determine time sheets, time cards, or an electronic time-keeping system included the proper approvals.

PAY12	The District's payroll reports were properly reviewed and approved before processing and distribution to employees.	Sample prepayroll registers or payroll registers to determine they were supported by authorized notifications of: • Employment. • Terminations. • Pay rate changes. • Withholding and voluntary deduction authorization forms. • Documentation of additional duty pay rate or hours and evidence work was performed. • Work attendance/leave records. Determine all supporting documents were reviewed and approved before final completion and warrants and direct deposit amounts were reviewed prior to distribution to employees. Indicate in the comments the amount of any over/under payments identified.
Financial reporting–USFR VII		
Objective: To determine whether the District properly prepared its financial reports, including its Annual Financial Report (AFR), for the audit year to provide legislative and oversight bodies, investors and creditors, and the public a transparent view of the District's financial position and operational results.		
FY26 #	Question	Review procedure
FR01	Budgeted expenditures reported on the AFR agreed with the District's most recently revised adopted expenditure budget.	
FR02	The District completed and submitted all parts of the AFR reporting package, including the school-level reporting AFR, using its accounting data in the files and reported additional information required in the forms, such as revenue and expenditure amounts that were not automatically pulled from its accounting and student count data, and maintained applicable supporting documentation. A.R.S. §15-904(F)	Determine: • The District either did not post transactions or adjusting entries to its accounting records after using its accounting data to populate the AFR or, if it made adjustments to its accounting data, the district uploaded new accounting data into its AFR and notified ADE of the changes and resubmitted its AFR. Audit firms may forgo writing a deficiency for rounding errors. • The District completed and submitted all parts of the AFR reporting package, including the school-level reporting AFR.
FR03	The District followed the AFR—**Review, Submission, and Publication Instructions**.	If no, list the AFR requirements that the District did not complete or complete timely, such as: • Prepared AFR that included all funds. • Uploaded all AFR forms to ADE by October 15. • Uploaded a copy of signed cover page to ADE within 5 days of submission. • Met publishing requirements for the AFR by November 15.
FR04	The District properly prepared the Food Service page of the AFR and reported expenditures from the M&O Fund 001 and Capital Fund 610 that agreed with the District's accounting records.	Determine reported amounts were properly coded and agreed to the District's accounting records, including the State match.

FR05	Detailed source documents were traceable to the District's trial balance that was used to prepare the financial statements.	Indicate in the comments if significant audit adjustments were made to properly state current year activity. Additionally, indicate if transactions are not recorded in the appropriate fiscal year.
FR06	The District's website home page included its average teacher salary information, separately from the budget, required by A.R.S. §15-903(E) and a copy of or a link to the District's page from the most recent Arizona Auditor General District Spending Report, required by A.R.S. §41-1279.03(A)(9).	
FR07	The District submitted the School District Employee Report (SDER) to ADE, and it was accurate and timely for ADE to calculate the Teacher Experience Index (TEI). A.R.S. §15-941 and **School Finance Reports | Arizona Department of Education (azed.gov)**	Determine: • The District had a process to prepare and submit the SDER. • Review the SDER and compare with payroll reports to determine full-time equivalents and salaries were accurately reported. • The District filed the SDER report with ADE by October 15, and corrections were made within the February 1 to March 1 deadline.
FR08	The District submitted its prior year's audit reports and USFR Compliance Questionnaire to the CSS and ADE. A.R.S.§15-914(D)	Determine the District: • Uploaded its prior year audit reports and USFR Compliance Questionnaire to ADE. • Sent a copy of all reports to the CSS.
Student attendance reporting–Arizona Department of Education's (ADE) School Finance External Guidelines		
Objective: To determine whether the District has implemented effective controls to report accurate student membership and attendance information to ADE to reduce the risk that the District received an inappropriate amount of State aid and/or local property taxes.		
FY26 #	Question	Review procedure
SAR01	The District's calendar ensured school was in session for the required days and offered students the required instructional hours per grade level, including Arizona Online Instruction (AOI) Programs as prescribed in A.R.S. §§15-808(J)(1),15-901(A)(1), 15-901.07, and 15-901.08.	Determine the District's calendar and bell schedule(s) met instructional hour requirements.
SAR02	If the District had an early (pre-) kindergarten program, the District calculated and submitted membership information for early (pre-) kindergarten students' attendance records for this program only for students with disabilities. A.R.S. §15-901(A)(1)(a)(i) and USFR Memorandum No. 175	**For SAR questions 2 through 13 do not include students whose attendance is tracked under an Instructional Time Model (ITM) in any sample testwork.** Sample at least 3 student attendance records.

SAR03	The District appropriately tracked and reported student membership and absences. A.R.S. §15-901	Sample number of attendance records shown in parentheses based on District's ADM: • For elementary & junior high <1,000 ADM (5); 1,000-5,000 ADM (10); >5,000 ADM (15). • For high school, CTED or AOI <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7).
SAR04	The District prorated high school students' membership if enrolled in less than 4 subjects.	Sample number of attendance records shown in parentheses based on District's ADM: For high school <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7).
SAR05	The District was a CTED or CTED member.	If yes, complete questions SAR 07 through 12.
SAR06	The District had an AOI program. A.R.S. §15-808	If yes, complete SAR 13.
SAR07	For students enrolled in a program provided by a CTED in a facility the District owned or operated (satellite programs), the District reported the actual enrollment for only the District classes the student was enrolled in at the District's school (excluding CTED program classes) under the District's CTDS number.	Sample number of students shown in parentheses based on ADM for high school, CTED, or AOI <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7).
SAR08	For students enrolled in a program the CTED provided in a facility the District owned or operated (satellite programs), the District calculated student absences in accordance with ADE's methods based on the number of District classes the student was enrolled in and attended at the District's school (excluding CTED satellite program classes).	Sample number of students shown in parentheses based on ADM for high school, CTED, or AOI <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7).
SAR09	For CTED satellite programs, the CTED reported actual student enrollment data for only the CTED program classes the student was enrolled in at that member district's satellite location (excluding school district classes). A.R.S. §15-393(O)	Sample number of students shown in parentheses based on ADM for high school, CTED, or AOI <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7). Total membership claimed for the school district and the CTED satellite locations for each student should not exceed 1.25.
SAR10	For CTEDs that meet for at least 150 minutes (not including any breaks) per class period on a CTED central campus, the CTED reported the membership as 0.75. A.R.S. §15-393(Q)	Sample number of students shown in parentheses based on ADM for CTED <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7) for students enrolled in a CTED course provided at a qualifying centralized or leased centralized campus.
SAR11	For students enrolled in both District and in CTED central program courses, the sum of the ADM was no more than 1.75 and the amount claimed by either entity was no more than 1.0. A.R.S.§15-393(Q)	Sample number of students shown in parentheses based on ADM for high school <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7).

SAR12	The District maintained appropriate documentation and accurately reported students enrolled in CTED programs, including accurately submitting scheduled hours of instruction and community college credits. A.R.S. §15-393	Sample number of students enrolled in a CTED shown in parentheses based on District's ADM for high school <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7). Determine if the reported total scheduled hours of instruction and/or total community college credits enrolled agreed to the supporting course enrollment documentation.
SAR13	The District maintained appropriate documentation and accurately reported students enrolled in its AOI program, including redetermining the actual full time equivalent (FTE) for each student enrolled in an AOI program following a student's withdrawal or after the end of the school year. A.R.S. §15-808	Sample number of students' records shown in parentheses based on the District's ADM <1,000 ADM (3); 1,000-5,000 ADM (5); >5,000 ADM (7) and review at least 4 weeks of students' attendance records to determine the District maintained the students' intended FTE Enrollment Statement and guardian-approved or District computer-generated daily log describing the amount of time spent by the student on academic tasks that agreed to the hours reported to ADE. (ADE's SF-0003-AOI Participation) *ADE guidance advises that A.R.S. §15-901 be used to determine the FTE for students in 7th and 8th grade.
SAR14	The District ensured the student's name in the student management system matched the name on the legal document on file. A.R.S. §15-828(D)	For questions 14-19, sample the number of entries and withdrawals shown in parentheses based on District's ADM <1,000 ADM (5); 1,000- 5,000 ADM (10); >5,000 ADM (15).
SAR15	The entry date in the computerized attendance system agreed to the entry form.	
SAR16	The student membership begins on the first day of actual attendance or, for continuing/pre-enrolled students, the first day that classroom instruction was offered, provided that the students actually attend within the first 10 days of school. ADE's School Finance Manual [E] Reporting Student Membership	
SAR17	The District obtained and maintained verifiable documentation of Arizona residency for enrolled students, including students in its AOI program. A.R.S. §15-802(B)(1) and **ADE's Updated Residency Guidelines**	Determine A.R.S. §15-802(B)(1) and ADE's Updated Residency Guidelines were complied with, except as noted in A.R.S. §15-828(I).
SAR18	The District prepared and retained the Official Notice of Pupil Withdrawal form for each withdrawal, and the forms were signed by a District administrator. A.R.S. §15-827	Determine the withdrawal date in the District's computerized attendance system agreed with the withdrawal date on the official form.
SAR19	The District counted students withdrawn for having 10 consecutive unexcused absences in membership only through the last day of actual attendance or excused absence. A.R.S. §15-901(A)(1)	
SAR20	The District uploaded membership and absence information to ADE that agreed to the District's computerized system records for the first 100 days of school. A.R.S. §15-901	Determine the District submitted the AzEDS ADM15 or ABSATT10 reports, as applicable to ADE electronically at least once every 20 school days for membership information and at least once every 60 days for absence information through the last day of instruction. For an AOI program, sample year-end attendance information.

SAR21	The District excluded nonresident students from the District's student count and State aid calculations and charged tuition as applicable. A.R.S. §15-823(G) and (L)	Discuss with the District their process to identify nonresident students.
SAR22	The District reported students who completed all high school requirements with the applicable graduation code and used the appropriate year-end status code for all other students.	For a sample of all students, determine graduation and year-end codes were correct based on ADE's **Pupil Withdrawals.**
SAR23	The District followed the attendance procedures outlined in the approved Instructional Time Model (ITM), as specified in **A.R.S. § 15-901.08**, for all students engaged in various modes of instruction.	Sample number of students whose attendance is tracked under an ITM, shown in parentheses based on the District's ADM <1,000 ADM (5); 1,000-5,000 ADM (10); >5,000 ADM (15). Determine the District followed the approved ITM it submitted to ADE via the **ITM submission link.** Note: This includes any combination of in-person learning, remote education, or hybrid approaches as described in the ITM submitted to the ADE. Students selected for test work should be tested based upon the ITM that was effective for that time period. **ITM template and FAQ**
Information technology (IT)–USFR IX		
Objective: To determine whether the District adopted an information technology (IT) security framework that aligned with credible industry standards and implemented controls that provide reasonable assurance that its data is accurate and reliable and protected from unintended exposure and consequences. Test work should determine that the District adopted a framework and controls were operating to protect District and student data.		
FY26 #	Question	Review procedure
IT01	The District maintained adequate separation of duties in its IT systems that prevented 1 employee from completing a transaction without additional review and approval procedures.	• Review the District user system access reports and determine the District adequately separated responsibilities among staff for administration, authorization, and operational responsibilities within the separate business systems (i.e., financial accounting system, student attendance system, student payment systems, network, and website) and limited employee access to only those business functions or software necessary to perform their job function. If this was not possible due to the District's limited staff size, determine adequate management review procedures were in place. See IT FAQ 2. • If there were incompatible duties or employees with superuser access, indicate in the comments what systems employees had inappropriate access to and what, if any, steps were taken to mitigate the risks of unauthorized changes. See IT FAQ 5.
IT02	The District reviewed and documented any system or software changes implemented.	Review the District's procedures and documentation to confirm any modifications to system hardware or software were authorized by a supervisor and were appropriate. See IT FAQs 1, 4, & 15.

IT03	The District assessed security risks for its systems and data, implemented appropriate controls to address risks, and provided employees/contractors annual security awareness training.	Determine the District: • Assessed the risks to District systems and data and implemented procedures to prevent and detect technology-related threats, such as risks to its systems, network, and data through email, internet use, social media, VPN, wireless access, and mobile devices. See IT FAQs 17 & 19. • Classified data by its sensitivity level and protected sensitive and confidential data. See IT FAQ 11. • Provided employees/contractors security awareness training at least annually that addressed prevention and detection of technology-related threats (i.e., phone and email phishing, website and ransomware attacks, and data breaches), and detailed instructions regarding how to prevent, identify, and report suspected security risks and incidents. See IT FAQ 6. • The District maintained evidence of training for those who attended the annual security awareness training including the training date(s). See IT FAQ 6.
IT04	The District immediately and appropriately modified terminated or transferred employees', contractors', or vendors' access to all District systems.	• Determine the District has a documented process for modifying or removing user access from all systems (e.g., financial accounting system, student information system, District's network, etc.). See IT FAQ 4. • Review the current list of contractors or vendors and transferred or terminated employees and determine that access to District systems had been appropriately modified or removed.
IT05	The District's computer network, system software, and hardware was physically protected from unauthorized access, theft, and environmental hazards.	• Determine the District has physical access controls over sensitive areas such as server rooms or communication closets. See IT FAQs 5 & 13. • Determine the District has implemented port security to prevent unauthorized users from accessing the network. See IT FAQ 13.
IT06	The District scheduled and performed data backup-control procedures for all critical systems at least daily, or more frequently, to ensure uninterrupted operations and minimal loss of data.	Determine system backup procedures included: • Test of backup reliability and integrity. • Backup copies were stored in separate facilities or fire-rated container. • Backups were scheduled for a defined time/period. See IT FAQ 7.
IT07	The District routinely completed software and application updates and operating system patches when they became available.	Determine the District's process and documentation that software (including anti- virus, anti-spyware, and anti-malware software) and applications were updated, and operating system patches were completed timely. In addition, determine systems were up-to-date to adequately protect the integrity and reliability of the District's data (i.e., web-based applications, accounting, student attendance, and payroll systems). See IT FAQ 16.

IT08	The District had cloud computing, digital learning, and vendor contracts or data-sharing agreements in place with any 3rd parties accessing or hosting District data that addressed controls to support security and processing integrity, and backup procedures if applicable, before data was accessed/shared.	Determine the District's cloud computing, digital learning, and vendor contracts or data-sharing agreements had appropriate security/access, processing, and backup controls in place. In addition, determine the District appropriately reviewed data accessed or processed by vendors or 3rd parties for propriety. See IT FAQ 18.
IT09	The District ensured changes to data in business (i.e., employee information, pay rates) and IT (i.e., user roles, access rights) systems were approved by an authorized individual prior to processing changes.	Determine changes to data were reviewed and approved by a designated employee to ensure the validity, completeness, and accuracy of processed data, and if issues were noted, corrective action was taken. See IT FAQ 1.
IT10	The District enforced data security policies related to passwords and user authentication that aligned with credible industry standards.	Determine the District: • Followed a password policy that required strong passwords, screen locks, repeated failed sign-on attempt lockouts, and prohibited sharing of user IDs and passwords along with more modern controls to authenticate user identities. See IT FAQ 14. • Required multifactor authentication for at least all employees/contractors with remote access, administrative access, and all users with access to critical IT systems. See IT FAQ 19. If any critical IT systems are not capable of implementing multifactor authentication, determine the District had compensating controls in place to adequately secure those IT systems and related data.
IT11	The District's IT systems generated electronic audit trail reports or change logs with information about electronic transactions that the District reviewed or analyzed regularly to determine transactions' propriety.	If a District IT system does not provide an electronic audit trail function, determine the District documented a process that allowed it to audit transactions. See IT FAQ 12.
IT12	The District monitored and reviewed IT system-generated incident or error reports to identify network security threats or other unusual activity and addressed noted issues.	Determine the District had procedures to investigate and respond to activities identified in the audit event/trail function such as repeat failed logons, or failed access attempts related to information systems; administrative privilege usage, employee credential usage, or third-party credential usage; or suspicious network activity. See IT FAQ 12.

IT13	The District had incident response and contingency planning documents in place to restore or resume system services in case of disruption or failure that were reviewed and tested at least annually.	Determine: • The District had planning documents that included the date and method the District used to review the plan (i.e., walkthroughs, tabletop discussion/simulations, full interruption, or other method) and maintained evidence of the procedures used, such as screenshots of tests, backups run, and minutes from meetings to document procedures performed to test plans. See IT FAQ 10. • The plan was tested at least annually to ensure employees/contractors understand their responsibilities, identify internal and external vulnerabilities, and take action to update equipment or remedy any issues identified since the last review. See IT FAQs 7 – 10. (If the District used a third-party vendor for IT support, the District should still have a District-level plan to activate the recovery or contingency plan that is tested at least annually.)
Transportation support–ADE's SF-0002 Transportation Guidelines		
Objective: To determine whether the District has implemented effective controls for its transportation program to ensure it properly reports its transportation miles and student riders to ADE, which helps to ensure the District receives the appropriate amount of State aid.		
FY26 #	Question	Review procedure
TS01	The District accurately calculated and maintained documentation for miles and students reported on the Transportation Route Report submitted to ADE. A.R.S. §15-922	Based on ADE's Transportation Guidelines, determine the District accurately reported the number of miles and eligible students transported. Indicate in the comments any net under/overstatement of miles and/or students reported and whether the over/understatement impacted the District's funding.
TS02	The District submitted the vehicle inventory report by July 15 to the Superintendent of Public Instruction. **ADE Transportation Manual**	Determined the report included the following for the audit year: • The actual odometer reading for each school bus operated by the school district as of June 30. TRAN03-1 • The total mileage for the year ending June 30. TRAN40-2
Records management–USFR X-E		
Objective: To determine whether the District has implemented effective controls to properly protect and maintain its records, including student and employee data, and that its records were disposed of securely and in accordance with established time frames.		
FY26 #	Question	Review procedure
RM01	The District established and followed policies and procedures to properly protect, maintain, and dispose of personally identifiable information and confidential records, such as student and employee information and social security numbers. **Retention Schedules | Arizona State Library (azlibrary.gov)**	Determine the District's records were properly protected, maintained, and disposed of in accordance with the General Retention Schedules for Education K-12 published by the Arizona State Library, Archives and Public Records.

General long-term debt–Arizona Revised Statutes Title 15, Chapter 9, Article 7		
Objective: To determine whether the District is following the laws related to bonds to ensure voters are informed and the District complies with the bond covenants.		
FY26 #	Question	Review procedure
GLTD01	The District calculated and issued any bonds in accordance with Arizona Revised Statutes and the Arizona Constitution. A.R.S. §15-1021	
GLTD02	The District expended bond proceeds only for voter-authorized purposes and not for items with useful lives less than the average life of the bonds issued or 5 years. A.R.S. §15-1021(F)	Sample expenditures made from bond proceeds to determine if expenditures were appropriate and meet the useful life definition.
GLTD03	If the District had outstanding bonded indebtedness and a balance remained in the Bond Building Fund after the acquisition or construction of facilities for which the bonds were issued, the governing board transferred the remaining balance to the Debt Service Fund. Otherwise, if the District had no outstanding bonded indebtedness and a balance remained in the Bond Building Fund after the acquisition or construction of facilities for which the bonds were issued, the governing board used the remaining balance to reduce taxes. A.R.S. §15-1024(B)	
GLTD04	The District credited interest or other money earned from investing bond proceeds to the Debt Service Fund unless the voters authorized the interest to be credited to the Bond Building Fund or federal laws or rules require the interest to be used for capital expenditures. A.R.S. §15-1024(C)	
GLTD05	The District held a public meeting each year between September 1 and October 31, until the bond proceeds are spent to discuss an update of the progress of capital improvements financed through bonding and the public was allowed an opportunity to comment. A.R.S. §15-491(K)	Determine the District held the required update meeting that included the following: • A comparison of the current status and the original projections on the construction of capital improvements. • The costs of capital improvements. • The costs of capital improvements in progress or completed since the prior meeting. • The future capital bonding plans of the school district. • The District's use of State capital aid and voter-approved capital overrides in funding capital improvements, if any.